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IN THE

Supreme Court of the United States

January Term 1965

No. 790

NATIONAL FLEXITIZED CORPORATION and DUBIN-HASKELL LINING CORP.,

Petitioners,

against

FLEXITIZED, INC. and FLEXITIZED SALES CORPORATION,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Statement

The petitioners pray that a writ of certiorari issue to review a judgment of the United States Court of Appeals for the Second Circuit entered on August 3rd, 1964 which affirmed in part and reversed in part a judgment of the United States District Court for the Southern District of New York which was entered on March 26, 1963.

Opinions Below

The opinion of the Court of Appeals for the Second Circuit (App. A, p. 21) is reported at 235 F. 2d 774. The opinion of the District Court (App. B, p. 36) is reported at 214 F. Supp. 644.

Jurisdiction

The judgment of the Court of Appeals for the Second Circuit (App. C, p. 60) was entered on August 3rd, 1964. The judgment of the District Court (App. D, p. 62) was entered on March 26th, 1963. Jurisdiction of this court is invoked under 28 U. S. C. 1254(1). On October 30th, 1964, Associate Justice John M. Harlan entered an order (App. E, p. 65) which extended until December 31st, 1964 the time within which to file this petition. On November 12th, 1964, the Court of Appeals, on the petitioners' application, entered an order which recalled its mandate to the District Court (App. F, p. 66). The reissuance of such mandate is withheld pending the decision on this petition.

Questions Presented

(1) Is there a federal law which, independently of state law, provides protection against unfair competition in interstate commerce, and if so, can the unfair competition laws of a state, consistently with such federal law, impose liability for or prohibit the use in interstate commerce of a descriptive word if such use is permissable under federal law?

(2) Did the District and Circuit Courts misapply the New York State law of unfair competition and contracts in this case?

Statutes and Federal Rules Involved

Lanham Act, Section 39 (15 U.S.C. 1121)

Lanham Act, Section 43(a) (15 U.S.C. 1125a)

Lanham Act, Section 44(h) (15 U.S.C. 1126h)

Lanham Act, Section 44(i) (15 U.S.C. 1126i)

Lanham Act, Section 45 (15 U.S.C. 1127)

28 U.S.C. 1254(1)

28 U.S.C. 1332

28 U.S.C. 1338

535 Stats. at L. 1748 *et seq.*

Subdivision 1 of Section 340 of the General Business Law of the State of New York.

Statement of Case

The complaint in this action asserted three separate claims; namely, breach of contract, trademark infringement and unfair competition. Jurisdiction over the claim of breach of contract and unfair competition was invoked under 28 U.S.C. 1332 by reason of diversity of citizenship.[1] Jurisdiction over the claim of trademark infringement was invoked under 28 U. S. C. 1338(a) and 15 U. S. C. 1121. Jurisdiction over the claim of unfair competition was also invoked under 28 U. S. C. 1338(b) because it was joined with the claim of trademark infringement.

The contract which the petitioners allegedly breached was expressed in two letters, one of which was written by the respondent, Flexitized Sales Corporation, to the petitioner, Dubin-Haskell Lining Corp., on December 4th, 1953 (App. G, p. 67) and the other by Dubin-Haskell Lining Corp. to Flexitized Sales Corporation on December 8th, 1953 (App. H, p. 68).[2] The contract was for a period of five years from January 1st, 1954 to December 31st, 1958 and pursuant to its terms the respondents agreed to sell and

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[1] Both of the petitioners are New York corporations and both of the respondents are California corporations.

[2] The respondents conceded that the two letters expressed the entire contract (R.A. 59).

deliver to the petitioners[3] and the petitioners agreed to purchase from the respondents (F.O.B. California) certain flexible cloth covered metal shirt collar stays which could be used only by shirt manufacturers. The contract prohibited the petitioners from handling competitive products and the petitioners agreed to confine the resale of the stays to shirt manufacturers located in the eastern part of the United States. After the contract had been in existence for about two years, several firms other than the respondents commenced to manufacture and sell the same type of collar stay[4] to shirt manufacturers at prices substantially less than the prices which the respondents charged the petitioners, and at or about the same time, the DuPont Company made available on a commercial basis a flexible polyester material known as "Mylar"[5] which was used by several firms to manufacture collar stays which were sold to the shirt industry at prices which were as low as 29¢ to 33¢ per gross as compared to 40¢ per dozen pair for the respondents' stays which National Flexitized Corporation was required to charge because of a fixed price. (R.A. 147, 348-349, 380, 562-564, 594).

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[3] The respondents were most anxious to have Dubin-Haskell Lining Corp. handle the stays (R.A. 309-311) because of the latter's reputation as the manufacturer and distributor of textile products to about 1100 or 1200 shirt manufacturers located throughout the United States and because of the reputation it had gained in conducting business in 52 foreign countries (R.A. 531-532). National Flexitized Corporation was incorporated in New York in January 1954 for the purpose of handling various types of products which were used in the manufacture of men's shirts including the handling of the respondents' stays, all of which moved in interstate commerce from the time they were delivered to petitioner in California until they were re-sold and delivered by the petitioner to shirt manufacturers.

[4] The respondents' stays were not protected by Letters Patent.

[5] "Mylar" is the DuPont trademark for the polyester material.

Except to a very limited degree where the metal stay was preferable because of a particular or novel collar design, the Mylar stay cause the metal stay to become all but obsolete, so much so that the respondents, in order to remain in business, turned almost exclusively to the manufacturer of the Mylar stay and tried to sell them to National Flexitized Corporation at 28¢ per dozen pair (R.A. 58). When the petitioners refused to handle the respondents' new product, the respondents wrote to National Flexitized Corporation on April 8th, 1957 and cancelled the contract (App. I, p. 70) and stated that the cancellation was prompted because of the petitioners' inability to sell the stays. Nothing further was heard from the respondents until July 16th, 1957 when the petitioners received a second letter (App. J, p. 71) in which the respondents said that they were cancelling the contract because National Flexitized Corporation was selling a competitive product,[6] and demand was made that such petitioner discontinue the use of the word "flexitized" as a part of its corporate title. In the meantime, the respondents had made arrangements to sell the Mylar stay as well as the metal stays to another New York firm and thereafter refused to have any further dealings with the petitioners.

The action for breach of contract sought the recovery of profits which the respondents claimed they would have realized had they continued to sell the metal stays to the petitioners during the remaining term of the contract from August 1st, 1957 to December 31st, 1958. The claims of trademark infringement and unfair competition were based

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[6] After receiving the respondents' letter (App. I) National Flexitized Corporation began to handle the Mylar stay which it produced from the DuPont material and sold such stays under the trademark "Staler" (R.A. 597). The competitive products which the respondents referred to in the letter dated July 16th, 1957 (App. J) were "Mylar" stays (R.A. 149-150, 162-163) which the respondents admitted were not competitive at all (R.A. 313).

upon the use of the word "flexitized"[7] as a part of the corporate title of National Flexitized Corporation, and the respondents sought injunctive relief against such use as well as a decree directing the petitioners to account to respondents for all profits realized by petitioners subsequent to the expiration date of the contract. The petitioners defended the claims of trademark infringement and unfair competition on the merits, and by way of affirmative relief, sought the cancellation of the registration of "flexitized" as a trademark on the ground that such registration was procured by fraudulent representations, and on the further ground that the word "flexitized" was descriptive of the respondents' goods. The claim of breach of contract was also defended on the merits and in addition thereto, the petitioners challenged the legality and enforceability of the contract on the grounds that it contravened Section 340 of the General Business Law of the State of New York and was void and unenforceable as against public policy, and on the further ground that the restrictive prohibition against the petitioners handling competitive products was unreasonably oppressive and entirely unnecessary for the protection of the respondents.

All issues with respect to the claim of breach of contract were submitted to the jury which awarded damages to the respondents in the amount of $27,000 which was increased to $36,321.58 by the addition of interest and costs. The court reserved unto itself all issues which pertained to the claims of trademark infringement and unfair competition but submitted to the jury a list of twenty-four questions in connection with such claims and the jury's answers to

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[7] In 1954, after the respondents and petitioners had used the word "flexitized" extensively for the purpose of describing the flexible characteristics of the collar stays, the respondent, Flexitized, Inc., unknown to petitioners, caused the word "flexitized" to be registered in the United States Patent Office as a trademark (R.A. 299-302, 388-389).

such questions were regarded by the court as special and advisory verdicts (App. K, p. 72), (App. B, pp. 36-37).

The court found that the word "flexitized" was descriptive of the goods to which it was applied and directed that its registration as a trademark be cancelled. The court also found that the word "flexitized" had not acquired a secondary meaning either as to source or origin or identity of product, and that the petitioner's use thereof had not given rise to confusion on the part of anyone. The court further found that the petitioners had not palmed off their goods as those of the respondents (App. B, pp. 44, 49-50).

The District Court rejected the petitioners' contention that federal law controlled the respondents' claim of unfair competition and proceeded to apply what it referred to as the New York law. In doing so, the court held that the petitioners had competed unfairly with the respondents by continuing the use of the word "flexitized" as a part of the corporate title of National Flexitized Corporation after the contract was terminated but refused to enter a decree directing the petitioners to account to respondents for all profits realized by petitioners subsequent to the expiration date of the contract on December 31st, 1958. The court's conclusion that the petitioners had competed unfairly with the respondents was based upon the premise that the petitioners were the "agents" of respondents, and as such, stood in a fiduciary relationship to the respondents to the extent that the petitioners' use of the word "flexitized" was permitted only so long as the contract continued in existence and that the petitioners, by continuing such use beyond that time, had taken a "free ride" with the word "flexitized" which the court thought was the subject of some kind of property which belonged to the respondents. The judgment as entered by the District Court was affirmed by the Circuit Court in all respects except that the Circuit Court reversed that part of the judgment which dismissed the

respondents' claim for an accounting of the petitioners' profits subsequent to the expiration date of the contract and remanded the case back to the District Court for further proceedings in that regard.[8]

Reasons Why Certiorari Should Be Granted

(As To Unfair Competition)

1. The first question presented by this petition is substantially the same as the one which prompted this court to review *Sears Roebuck & Co.* v. *Stiffel & Co.*, 376 U. S. 225, and its companion case, *Campco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234, except that here the Lanham Act (15 U. S. C. 1051, *et seq.*) (hereinafter referred to as the "Act") is involved instead of the patent law, and the issue is whether the Act provides a federal law of unfair competition with respect to transactions which involve interstate commerce, and if so, does it have supremacy over state law.

It appears that the question arose for the first time within the Southern District of New York in the case of *Ross Products, Inc.* v. *Newmann* (D. C. S. N. Y., 1959), 94 F. Supp. 566, where the court held that the Act did not create a federal law of unfair competition.

On two separate occasions after the *Ross* case (*Dad's Rootbeer Co.* v. *Doc's Beverages, Inc.* (C. A. 2, 1951), 193 F. 2d 77; *Charles D. Briddell, Inc.* v. *Alglobe Trading Corp.* (C. A. 2, 1952), 194 F. 2d 416), the Second Circuit was able to avoid expressing an opinion on the subject and in *Hyde Park Clothes, Inc.* v. *Hyde Park Fashions, Inc.* (C. A. 2, 1953), 204 F. 2d 223, it sidestepped the issue by

[8] On September 24th, 1964, the District Court entered an order appointing a Special Master to conduct the proceedings but the same have been held in abeyance by reason of the order which was made by the Circuit Court on November 12th, 1964 (App. F, p. 66).

saying that it was unable to detect any basic difference between federal law and state law in that particular instance which caused Judge Clark, in a dissenting opinion, to say:

> "We have already given effect to the announced purpose of Congress to establish a national law in the Lanham Act so far as concerns the issue of infringement. I think we should do the same thing on the issue of unfair competition."

On two subsequent occasions (*American Safety Table Co., Inc.* v. *Schreiber* (C. A. 2, 1959), 269 F. 2d 255, cert. den'd 361 U. S. 915; *Hygienic Specialties Co.* v. *H. G. Salzman, Inc.* (C. A. 2, 1962), 302 F. 2d 614) the Second Circuit did not find it necessary to pass upon the question, but in *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.* (C. A. 2, 1956), 234 F. 2d 538, and in *Norwich Pharmacal Company* v. *Sterling Drug, Inc.* (C. A. 2, 1959), 271 F. 2d 571, cert. den'd 362 U. S. 919, the court expressed the opinion that state law was applicable to claims of unfair competition even though the issue was regarded as complex and "capable of invoking considerable controversy". On a previous occasion (*American Auto Assn.* v. *Spiegel* (C. A. 2, 1953), 205 F. 771, the Second Circuit said that Section 44(i) of the Act extends to United States citizens the same relief which Section 44(h) affords to aliens under any Treaty or Convention, however, it seems that the decision in this case disclaims the existence of a federal law of unfair competition as between citizens of the United States and projects the view that state law only controls in such situations.

The Fifth Circuit has aligned itself with the Second Circuit by holding that the Act did not create independent federal jurisdiction over an action for unfair competition (*Royal Lace Paper Works, Inc.* v. *Pest-Guard Products, Inc.* (C. A 5, 1957), 240 F. 2d 814) and the Seventh Circuit took a similar position in *City Messenger of Hollywood,*

Inc. v. *City Bonded Messenger Service, Inc.* (C. A. 7, 1958), 254 F. 2d 531, and *Seven-Up Company* v. *Bluenote, Inc.* (C. A. 7, 1958), 260 F. 2d 585. The Ninth Circuit has adopted the opposite view. In *Stauffer* v. *Exley* (C. A. 9, 1950), 184 F. 2d 962, the court first said that Section 44(i) of the Act extends to United States citizens and aliens alike the benefits which are provided by Section 44(h), but later extended this view and held that the Act gives rise to a broad federal law of unfair competition, regardless of trademark registration, provided the acts complained of take place in interstate commerce (*Chamberlain* v. *Columbia Pictures Corp.* (C. A. 9, 1951), 186 F. 2d 923), The Ninth Circuit reasserted such view in *Pagliero* v. *Wallace China Co.* (C. A. 9, 1952), 198 F. 2d 339, as well as in *Ross Whitney Corp.* v. *Smith, Kline & French Laboratories* (C. A. 9, 1953), 207 F. 2d 190, and later held in *Ramirez & Ferand Chilli Co.* v. *Las Palmas Food Co.* (C. A. 9, 1956), 245 F. 2d 877, aff'g 146 F. Supp. 594, that the Act created a federal cause of action for unfair competition in the use of trade and commercial names. In one case, *Kemart Corp.* v. *Printing Arts Research Laboratories, Inc.* (C. A. 9, 1959), 269 F. 2d 875, where the claim of unfair competition was based upon a false statement which disparaged the plaintiff's product, the Ninth Circuit held that state law applied only because interstate commerce was not involved. In the most recent case in which it expressed its view of the matter (*Neal* v. *Thomas Organ Co.* (C. A. 9, 1963), 325 F. 2d 978), the Ninth Circuit said:

> "In holding that under the Lanham Act (15 U. S. C. A. 1126) there had been created a substantial federal law of unfair competition whenever interstate commerce was involved, the Ninth Circuit differs from other Circuits."

The Eighth Circuit adopted the view of the Ninth Circuit (*Iowa Farmers Union* v. *Farmers Educational & Co-*

operative Union (C. A. 8, 1957) 247 F. 2d 807) and the Sixth Circuit said that:

> "The legislative history of the Lanham Act indicates that Congress intended to fashion a new federal remedy against a particular kind of unfair competition that common law had effectively protected." (*Fed-Mogul-Bower Bearings Inc.* v. *Azoff* (C. A. 6, 1963), 313 F. 2d 405, rev'g 201 F. Supp. 788.)

The Third Circuit was unable to find any ambiguity in the language of the Act and said that Congress has defined a statutory civil wrong of false representation of goods in commerce against which relief may be had in the federal courts (*L'Aiglon Apparel, Inc.* v. *Lana Lobell, Inc.* (C. A. 3, 1954), 214 F. 2d 649, rev'g 118 F. Supp. 251). The Third Circuit reasserted such views in *Parkway Baking Co., Inc.* v. *Freihofer Baking Company* (C. A. 3, 1958), 255 F. 2d 641, but found no reason to go into the matter in *Perfectform Corp.* v. *Perfect Brassiere Co., Inc.* (C. A. 3, 1958), 256 F. 2d 736 because the court concluded that federal and state law were substantially the same as applied to that particular situation.

The Court of Customs and Patent Appeals approved *Stauffer* v. *Exley, supra* (*Re Lyndale Farm,* 186 F. 2d 723) and the District Court for the Southern District of New York showed its preference for the view of the Ninth Circuit by holding that federal jurisdiction arises under Section 43(a) of the Act when a false designation of origin or false description is used in connection with goods or services in commerce (*Scarves By Vera* v. *United Merchants & Manufacturers, Inc.* (D. C. S. D. N. Y. 1959), 173 F. Supp. 625).

As the matter now stands, the Second, Fifth and Seventh Circuits hold to the view that the Act did not, except in a very limited sense, create a federal law of unfair competition, whereas the Sixth, Eighth and Ninth Circuits have stated that the Act, independently of state law, provides a

broad coverage of federal protection against unfair competition where the acts complained of take place in interstate commerce. This conflict of decisions has not been resolved by this court and it is important that such be done in the interest of uniformity between Circuits. The settlement of the question is also important to industry as a whole and by presenting it at this time the petitioners do not suggest or infer that every claim of unfair competition is governed or controlled by federal law or that a state is powerless to adopt and enforce such remedies as may be necessary to regulate trade practices which are intrastate in nature and confined within the borders of such state; the petitioners do urge, however, that there is a federal law of unfair competition which has supremacy over every situation where the wrong complained of takes place in interstate commerce otherwise the application of state law to such situations would seem to indicate judicial recognition of the fact that the several states, under the pretext of applying their respective laws of unfair competition, have the right to say what may or may not be used in commerce, or at least, the right to share equally with Congress in making such determination. The views of the petitioners in such respect seem to be supported by Sections 43(a), 44(h) and 44(i) of the Act (15 U. S. C. 1125a, 1126h and 1126i) which appear to embody a broad federal law of unfair competition which is applicable to United States citizens and aliens alike, and Section 45 of the Act (15 U. S. C. 1127) manifests the Congressional intent—

> "* * *; to protect persons engaged in such (interstate) commerce against unfair competition."

The petitioners also submit that the term "unfair competition" as used in Section 44(h) is an extension of the term "false description or representation" as used in Section 43(a). A recognized writer on the subject has said that the Congressional use of the phrase "unfair competition" in

its liberalized and not in its rigidified common law concept imports the development of a new body of federal law against unfair competition, irrespective of diversity of citizenship and that such law has deprived the rule of *Erie Railway Co.* v. *Tompkins*, 304 U. S. 64 of much of its importance (Callman Unfair Competition and Trademarks, Vol. 1, 2nd Ed., pp. 77-78).

It also seems quite plausible that Sections 43(a), 44(h) and 44(i) of the Act may very well constitute a restatement of a pre-existing federal law of unfair competition which has its roots not only in the exclusive regulatory power of Congress over commerce, but as well in the Paris Convention For the Protection of Industrial Property (53 Stats. at L. 1748 *et seq.*) which, under Article VI, Clause 2 of the Constitution, became the supreme law of the land when it was ratified by Congress. It is suggested that the Paris Convention which delineates specific acts of unfair competition cognizable under common law, is self-supporting and provides substantial remedies which are available alike to all nationals of all member states (*La Republique Francoise* v. *Saratoga Vichy Springs Co.*, 191 U. S. 427).

If there is a federal law of unfair competition, the federal concept of what constitutes such offense as enumerated by the Second Circuit (*Hygienic Specialties Co.* v. *S. G. Salzman, supra; Societe Compton de l'Industrie Cotonnier Establishments Boussac* v. *Alexander's Department Stores, Inc.* (C. A. 2, 1962), 299 F. 2d 33; *Robins Industries Corp.* v. *David Riemer Co., Inc.* (C. A. 2, 1963) 312 F. 2d 899, aff'g 198 F. Supp. 921) should have been applied in this instance, but aside from the fact that the court refused to apply the federal concept, the decision still was in error because it was not based upon New York law. The weight of authority as to what must be established under New York law in order to sustain a claim of unfair competition is reflected by *Neva-Wet Corp.* v. *Never Wet Corp.*, 277 N Y 163; *Gotham*

Music v. *Denton & Haskins*, 259 N Y 86; *The Eastern Construction Co., Inc.* v. *Eastern Engineering Corp.*, 246 N Y 459; *Underhill* v. *Schenck*, 238 N Y 7 and *Corning Glass Works* v. *Corning Cut Glass Co.*, 197 N Y 173 and there is no New York court which has gone as far as the District and Circuit Courts did on this occasion. (See also *Intricate Metal Products, Inc.* v. *Schneider* (C. A. 9, 1963), 324 F. 2d 555 and *Crane Co.* v. *Crane Heating & Air-Conditioning Co.* (C. A. 6, 1962), 299 F. 2d 577.)

The District Court was very much aware of the lack of proof of the essential elements of unfair competition when, at the close of the case, the court said:

> "I am slightly troubled with the possibility that it could be said that there was unfair exploitation by the defendants, that is a trier of the facts could say that, and this would cut both ways it seems to me with or without a trademark (R.A. 694-695) * * *."

> "Frankly, the plaintiff's case is awfully thin, awfully thin on this unfair competition, but I am going to put it to the jury and we will see what happens (R.A. 698) * * *".

> "I am not even convinced that the facts will support this in this case or at least so far as the proofs offered by the plaintiffs. * * * I think that the unfair competition is very, very thin if you take the most favorable imaginable inferences from the point of view of the plaintiffs."

If this type of doubt was entertained by the District Court, it should not have permitted its opinion to be influenced by the jury because at that point the question had become one of law to be resolved only by the court.

Even though the District Court was not convinced that the respondents had sustained their claim of unfair competition, it nevertheless, for some unexplainable reason, seized upon the idea that the petitioners were the agents of

the respondents and expressed such idea in the following language:

> "Under the terms of this *'agency'** the defendants were entrusted with the use of the word 'Flexitized', in the corporate title of the defendant, NATIONAL FLEXITIZED, and in conjunction with the marketing of stays made and sold by plaintiffs. The permission did not extend beyond the life and terms of the agency and the defendants must reasonably have realized this" (App. B, p. 56).

The court's view that a fiduciary relationship existed cannot be reconciled with the facts because the proof (App. G and H) established that the petitioners did not function on a commission basis, but on the contrary, were independent contractors which purchased and sold for their own account and risk, various types of products, including the respondents' stays and the same set of facts which prevailed in *Hygienic Specialities Co.* v. *S. G. Salzman*, *supra*, caused the Second Circuit to hold in that case that the defendants were not the agents of plaintiffs and did not stand in any position of trust.

By the same token, the court's view that the respondents acquired some kind of a property right in the word "flexitized" or that the word carried with it a certain "public familiarity which made prospective purchasers more likely to buy products connected with that name" is entirely inconsistent with the evidence. In the first place, the public was not involved and secondly, it was most unlikely that sophisticated and skilled buyers such as shirt manufacturers would have been induced to purchase an item which constituted an infinitesimal and invisible part of a shirt collar merely because of a word, but more to the point is the fact that the court itself found that the petitioners' use of the word "flexitized" did not give rise to confusion on

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* Italics and underscoring supplied.

the part of anyone. The court's vague reference to a property right in the word "flexitized" is difficult to explain or rationalize. The respondents themselves, as reflected by the letter of December 4, 1953 (App. G, p. 67) did not attach any significance to the word except as an instrument of description and there is nothing in the contract and no evidence of any kind was introduced to indicate anything to the contrary. Evidently, the courts' idea of the existence of a property right in the word "flexitized" was based upon a letter which the attorney for the respondents wrote to Dubin-Haskell Lining Corp. on December 17, 1953 after the contract had been finalized by the exchange of the letters of December 4th and December 8th, 1953 (App. A, p. 22 and App. B, p. 56). In such letter, the attorney said that he was in the process of preparing a proposed agreement as outlined in the two letters and that he had suggested to the respondents that the use of the word "flexitized" as a part of the corporate title of National Flexitized Corporation be conditioned upon the faithful performance of the agreement. Apparently, such suggestion was not acceptable to the respondents because they did not respond to such letter and the contract as expressed by the two letters which were exchanged between the parties remained unaltered (R.A. 59).

Neither the federal nor the New York courts recognized "property" as such in a name or in a generic word, especially where the word is descriptive and has no significance insofar as a particular product or business is concerned.

In *Ball* v. *United Artists Corp.* (1st Dept., 1961), 13 A. D. 2d 133, the court said:

> "As a matter of law, one may not obtain a proprietary interest in a title or a name merely by formulating the same from words in the English language and thereafter using it in connection with an enterprise. Despite the persistent belief that the first user of a specific name or designation gives power to such user to prevent its employment by others, it is important to note that no such doctrine

exists." (*Avon Periodicals* v. *Ziff-Davis Pub. Co.*, 282 A. D. 200 aff'g 113 N. Y. Supp. 2d 737).

In *Schwartz* v. *Hampton* (N. Y. Sup. Ct. 1961), 130 U. S. P. Q. 321 (not otherwise reported), it was held that the "first user of a trade name composed of common words acquires no special preference" especially in the absence of secondary meaning, and in *Mutual Life Insurance Co.* v. *Menin* (C. A. 2), 115 F. 2d 975, Judge Learned Hand said:

> "* * * we can find no warrant in the books for considering a name, qua name, as property. No doubt 'property' is itself a conventional concept, but so are all legal concepts, this one has not yet embraced names."

See also *National Dairy Products Corp.* v. *Universal Food Products Inc.* (POTM T. App. Bd. 11/25/64), 143 U. S. P. Q. 349.

The record does not support any legal or factual justification for either the District or the Circuit Court to have concluded that the petitioners had competed unfairly with the respondents on any basis whatever and there was not a shred of evidence to show or even suggest that anyone ever purchased anything from the petitioners because of the word "flexitized" or because of any familiarity with such word. The only witness who was called by the respondents in that connection testified that he did not know where the metal stays originated and cared less and that he purchased the products only because he found them to be useful in his business (App. B, note 16, p. 49), (R.A. 456, 459, 490-492). Unquestionably, the same thing applied to every shirt manufacturer and no proof was ever offered to suggest anything to the contrary.

The decisions which have been rendered in this case appear to have fostered a new and novel kind of law of unfair competition which is foreign to all federal and New York concepts and the directive that the petitioners account to the respondents is unprecedented in a situation of this kind.

2. The theory which underlies the monetary judgment which was entered against the petitioners is that the petitioners breached the contract which caused the respondents to sustain a loss of profits which they otherwise would have realized had the petitioners continued to purchase the stays from the respondents until the end of the contract period. Without characterizing such theory, the evidence established that one of the respondent's officers terminated the contract on April 8, 1957 (App. I, p. 70) and that another officer, apparently unaware of the first letter, wrote a second letter of cancellation in which a demand was made that the petitioners discontinue the word "flexitized" as a part of the corporate title of National Flexitized Corporation (App. J, p. 71). From that point on, the respondents refused to sell any stays to the petitioners (see App. L, p. 76). Regardless of the reason for the termination, the fact remains that any profits which the respondents may have derived from the sale of the stays to the petitioners were not forthcoming for the simple reason that the respondents refused to sell such products to the petitioners, but more important is the fact that the respondents were not in a position to sell the metal stays to the petitioners because the respondents, commencing in July of 1957, stopped the manufacture of the metal stay and concentrated entirely on the production of the "Mylar stay because of the competition which had been engendered by such item" (R.A. 58, 135, 140, 236-237, 596). Therefore any loss which may have been sustained was attributable directly to the respondents and it was improper for the court to permit any recovery in connection therewith. In addition to the fact that the losses so claimed were attributable directly to the respondents, there was nothing before the court to indicate that the parties contemplated any loss of that kind and in the absence of such contemplation such profits were not recoverable under New York Law (*Loesei Realty Co.* v. *New York*, 254 N Y 41; *Rochester Lantern Co.* v. *Stiles & P. Press Co.*, 135 N Y 209; *Wakeman* v. *Wheeler & W. Mfg. Co.*, 101 N Y 205; *Baldwin* v. *U. S. Tel. Co.*, 45 N Y 744; *Leonard* v. *N. Y. A & B Electro Magnetic Tel. Co.*, 41 N Y 544; *Hamilton* v. *McPherson*, 28 N Y 72).

The only proof which the respondents offered with respect to the loss of profits was confined entirely to Profit and Loss Statements for the period from September 17, 1953 to August 31, 1957, which were introduced into evidence during the testimony of an accountant who was called as a witness by the respondents. The accountant testified that he did not examine or audit the respondents' books of account, that he did not prepare or have anything to do with the preparation of the Profit and Loss Statements and did not know who did, and that he could not say if the statements which were introduced actually pertained to the respondents' books (R.A. 427-434). Louis Graver, the respondents' President also testified that he did not have anything to do with the preparation of the statements and did not know who did (R.A. 157-158) and there was no proof of any kind with respect to any loss of profits for the period from September 1, 1957 to December 31, 1958, which was the period upon which the jury's verdict was based.

At the close of the case and during the argument of a motion by the petitioners for the dismissal of the complaint, the court reviewed the proof which the respondents offered as to the damages allegedly sustained and made the following remark:

> "Damage is damage is damage. We can't have damage out in limbo somewhere; we have got to prove damages. You don't have to prove them to a mathematical certainty, but we cannot allow this jury to speculate.
>
> I want to know from you is there anything other than loss of profits? To me you have proved nothing; if indeed you proved that. You did not offer anything other than this somewhat general claim or proof of a theory of loss or loss of profits from August 1957 to December 1958." (R.A. 779)

The proof of damages did not satisfy the court and it should not have permitted the jury to speculate on a matter of that magnitude (*Haughey* v. *Belmont Quadrangle Drilling Corp.*, 284 N Y 136; *Steitz* v. *Gifford*, 280 N Y 15; *Broadway Photoplay Co.* v. *Word Film Corp.*, 225 N Y 104; *Dickson* v. *Hart*, 142 N Y 183; *Swain* v. *Schieffelin*, 134 N Y

471; *Bernstein* v. *Meech*, 130 N Y 354; *Warren Chemical & Mfg. Co.* v. *Holbrooke*, 118 N Y 586; *Wakeman* v. *Wheeler & W Mfg. Co., supra*).

The enforceability of the contract was challenged by the petitioners on the ground that it violated Subdivision 1 of Section 340 of the General Business Law of the State of New York in that the restriction against the petitioners' handling of a competitive product constituted an unlawful interference with the exercise of a lawful business activity. If such was the fact, the action for breach of contract should have been dismissed because the New York courts will not enforce an agreement which is in contravention of any prohibitory statute or which is found to be against public policy (*Purchasing Associates Inc.* v. *Morton Weitz*, 13 N Y 2d 267; *Manson* v. *Curtis*, 223 N Y 313; *Pratt* v. *Short*, 79 N Y 437; *O'Connor* v. *O'Connor*, 263 A. D. 820; *Alexander's Department Stores Inc.* v. *Ohrbach's Inc.*, 266 A. D. 535, app. dism'd 291 N Y 707; *Levin* v. *Levin*, 253 A. D. 758; *Straum* v. *Truby*, 245 A. D. 357; *Attridge* v. *Pembroke*, 235 A. D. 101; *DiTomasso* v. *Loverro*, 250 A. D. 206).

Except to call attention to certain basic and reversible errors no effort has been made at this time to set forth in detail various questions which necessarily arise in connection with the money judgment, however, the petitioners submit that they have been subjected to a gross injustice which cannot be corrected except by this Court, and they hereby request permission to present all issues with respect to the claim of breach of contract in the event certiorari is granted.

CONCLUSION

For the reasons above stated, a writ of certiorari should issue to the Court of Appeals for the Second Circuit.

Respectfully submitted,

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APPENDIX A

(Opinion of the Court of Appeals for the Second Circuit)

Before WATERMAN, FRIENDLY, and HAYS, Circuit Judges.

WATERMAN, Circuit Judge.

This action involves a claim of trademark infringement under the Lanham Act, 15 U. S. C. § 1051 et seq., together with claims of breach of contract and unfair competition. Jurisdiction rests upon 28 U. S. C. § 1338 and § 1332. 28 U. S. C. § 1338 grants to district courts original and exclusive jurisdiction over civil actions arising under any federal patent, copyright or trademark statute, and over any substantial and related claim for unfair competition which has been joined with such a statutory claim. 28 U. S. C. § 1332 grants jurisdiction in diversity of citizenship cases.[1]

Plaintiffs, two California corporations named Flexitized, Inc. and Flexitized Sales Corp. were organized in September of 1953 as the manufacturer entity and the sales agency entity in a business operation devoted to the production and marketing of a flexible collar stay which plaintiffs' principals had developed. The term "Flexitized" was coined by plaintiffs' principals shortly after their development of the stay and shortly before they organized plaintiff corporation and use the term in the corporate names. The essential characteristics of plaintiffs' collar stays is their capacity, when sewn into a collar, to retain a configuration or style shaped by the wearer; and an unsuccessful attempt was made sometime after the organization of plaintiff corporations to patent the stay. By February 1, 1955, however, plaintiff Flexitized, Inc. was successful in having "Flexitized" registered with the United States Patent Office as its trademark. In late 1953, plaintiffs, having already secured the services of a distributor for their stays in the West Coast area, entered into negotiations with defendant Dubin-Has-

[1] Both plaintiffs are California corporations and both defendants are New York corporations.

kell Lining Corp., looking toward the latter's undertaking to distribute, either by itself or through an affiliate, plaintiffs' product in the Eastern part of the United States. As a result of these negotiations a series of letters was exchanged.

The first of such letters was sent under date of December 4, 1953 from the president of both plaintiffs to Herbert Haskell of defendant Dubin-Haskell Lining Corp. In it, plaintiffs' president referred to a conversation of that day between Herbert Haskell and him and set forth "the major terms" of an agreement said to be reached during such conversation, and expressed the hope that the letter would serve as legal protection for the parties until such time as plaintiffs' attorneys could draft a formal agreement. In his answering letter dated December 8, 1953, Herbert Haskell alluded to the "contractual agreement of December 4" and suggested certain modifications of the terms spelled out in the December 4 letter. He also stated that, "As we both thought, it would be a good idea to get your attorney to write up an agreement covering all these points as we agreed and forward same to us to make this legally official," adding that, "In the meantime, as per your statement, we will proceed and start working on this product immediately." Under the major terms of the agreement set forth in these letters, defendant Dubin-Haskell Lining Corp. was to become plaintiffs' exclusive distributor in all of the United States except eleven Western states, and during the five year life of the contract was not to have the right to sell any competing product, directly or indirectly. Only one other written communication passed between the two parties regarding the distributorship agreement. That was a letter dated December 17, 1953, in which plaintiffs' counsel, acting on his clients' behalf, stated to Herbert Haskell that he had been informed that Dubin-Haskell Lining Corp. in order to carry

out distribution of plaintiffs' product was intending to form an affiliate using the name "Flexitized" and that he had suggested to plaintiff corporations' president that the use of the name "Flexitized" in the proposed corporation be conditioned upon the faithful performance of the distribution agreement. Defendant Dubin-Haskell Lining Corp. did not respond to this letter.

The proposed corporation referred to in this letter of December 17, 1953 did materialize shortly thereafter, it being organized under the name of National Flexitized Corp. in the early part of 1954, and becoming, eventually, the second defendant in this action. National Flexitized Corp., after its organization in 1954, began to be the distributor of plaintiffs' collar stays in the East, and from that time until the distributorship agreement was terminated both plaintiffs and defendants paid for the preparation and circulation of various advertising materials using the term "Flexitized." During 1954, 1955, and part of 1956, defendant National Flexitized Corp. purchased collar stays from plaintiffs for resale to garment manufacturers at the rate of more than $100,000 per year, but sales by plaintiffs to National Flexitized fell off markedly in the latter part of 1956 and the early part of 1957. This drop in sales coincided with the selling, without plaintiffs' knowledge, by National Flexitized Corp. of collar stays which plaintiffs neither sold nor manufactured. In a letter to Herbert Haskell dated April 8, 1957, Henry Amber of plaintiff Flexitized Sales Corp., though not stating that plaintiffs had become aware that defendants were selling stays other than theirs, indicated that plaintiffs were going to attempt to sell their product through another means because defendants were "doing absolutely nothing with it" but stated that plaintiffs would continue to fill orders from defendants for another thirty days. Then, on July 16, 1957, plaintiffs' president wrote to Haskell informing him that plaintiffs had evidence that defendants were sell-

ing a competitive stay in violation of the agreement with plaintiffs, and that, although plaintiffs were willing to fill emergency orders until August 1, 1957, they had decided to terminate business relations with defendants. The letter also notified defendants immediately to discontinue using the name "Flexitized" in their operations. Thereafter defendant National Flexitized Corp. attempted to place an order by wire with the plaintiffs on August 1, 1957, but plaintiffs refused to fill it, explaining in a return wire and a covering letter that the refusal was for reasons stated in the letter of July 16. After termination of the agreement defendants continued to use the name "Flexitized" in the corporate name of defendant National Flexitized Corp. while marketing collar stays not made or sold by plaintiffs. Subsequently plaintiffs brought this action in the United States District Court for the Southern District of New York, claiming breach of contract, trademark infringement, and unfair competition. Plaintiffs' three claims were tried before the court, Tyler, J., and a jury, and, with the consent of the parties, the court took it upon itself to resolve all issues pertaining to the claims of trademark infringement and unfair competition and left to the jury the task of determining the issues raised by the breach of contract claim.

On the basis of its own and the jury's findings, the lower court found that defendants did breach the contract and entered judgment for plaintiffs to recover $27,000 damages plus interest and costs; that plaintiffs' registered trademark "Flexitized" was invalid and dismissed the claim for trademark infringement; and, as to the claim for unfair competition, it permanently enjoined defendants from using the word "Flexitized" in their corporate name and in connection with their sale of products competitive with plaintiffs' products, but refused to order an accounting and assessment of profits made by defendants in connection with

the use of "Flexitized" by them. The decision below is reported at 214 F. Supp. 664, 136 USPQ 590.

Defendants have appealed from the entry of judgment on the breach of contract and unfair competition claims, and plaintiffs have cross-appealed from the portion of the judgment declaring their trademark invalid and from the lower court's refusal on the unfair competition claim to order an accounting. We affirm the judgment below in all respects except the refusal by the lower court to grant plaintiffs an accounting on their claim for unfair competition, and, as to this portion of the judgment, we reverse and remand for such an accounting.

We need give only brief attention to defendants' appeal on the breach of contract issue. The jury expressly found, and the trial court ruled that its findings were supported by adequate evidence, that plaintiffs and defendants had entered into an exclusive distributorship contract under which defendants promised to use their best efforts to sell plaintiffs' product and also promised not to sell a competing product during the life of the contract, that defendants had breached the contract, and that plaintiffs suffered resultant damages of $27,000. Our examination of the record convinces us that there was ample evidence to support the verdict, both on the issue of liability and on the issue of damages, to which defendants have directed their principal efforts on appeal. The parties to this contract having entered into it contemplating the deriving of profits thereby, any loss of profits by plaintiffs resulting from defendants breach, if such lost profits were established with reasonable certainty, were clearly recoverable under the governing law of New York. Cramer v. Grand Rapids Show Case Co., 223 N. Y. 63, 119 N.E. 227 (1918); Wakeman v. Wheeler & Wilson Mfg. Co., 101 N. Y. 205, 4 N.E. 264 (1885); Bagley v. Smith, 10 N. Y. 489, 61 Am. Dec. 756 (1854); Manuszewski v. Keele, 257 App. Div. 1036, 13 N. Y. S. 2d 852 (4th Dep't 1939) (per curiam); Present v. Glazer, 225 App. Div. 23,

232 N. Y. S. 63 (4th Dep't 1928). Compare Witherbee v. Meyer, 155 N. Y. 446, 50 N.E. 58 (1898).

Plaintiffs introduced evidence of their sales and profits before and after defendants' breach, clearly acceptable proof tending to show the amount of lost profits suffered by plaintiffs, Bagley v. Smith, supra; 5 Williston, Contracts § 1346A, at 3781 (rev. ed. 1937), cf. Present v. Glazer, supra, and plaintiffs also introduced evidence of defendants' collar stay sales and defendants' purchases from collar stay suppliers other than plaintiffs after the breach. Although such evidence did not establish damages in the form of lost profits precisely to the penny, it did suffice to form a reasonable basis upon which the jury could properly conclude the amount of plaintiffs' lost profits occasioned by defendants' breach, together with the amount of such profits which plaintiffs had been able to recoup through diligent efforts of their own after the breach had occurred. While there is some New York authority to the effect that evidence of a plaintiff's subsequent profits may not be introduced where damages are sought for lost profits from a contract breach that delayed the commencement of a new business venture, see Cramer v. Grand Rapids Show Case Co., supra, such authority is of no aid to defendants in the case at bar. Here, prior to defendants' breach, plaintiffs and defendants had operated under the exclusive distributorship contract for a period of two full years during which plaintiffs had realized a fairly constant rate of profit from the venture. Thus, we conclude that there was adequate evidence to support the jury's findings that defendants were chargeable with a contract breach that had caused plaintiffs to suffer damages in the amount of $27,000.

[1] We find equally undeserving of reversal the conclusion of the court below that plaintiffs' trademark, though registered, was invalid. While registration of a trademark is prima facie evidence of its validity, 15 U. S. C. § 1115 (a), this merely gives rise to a rebuttal presumption, and

the mark's validity may be attacked in a collateral proceeding. E.g., Kellogg Co. v. National Biscuit Co., 305 U. S. 111, 59 S. Ct. 109, 39 USPQ 296 (1938); National Nu-Grape Co. v. Guest, 164 F. 2d 874, 75 USPQ 229 (10 Cir. 1947). It has been

[2] long established that a trademark is not valid if the terms comprising it, as understood in their normal and natural sense by those to whom the marked product is sought to be marketed, are merely descriptive of the product, or its ingredients, qualities or characteristics and, absent a showing that the trademark through use has acquired a secondary meaning, it will not be accorded protection. 15 U. S. C. § 1052(e) (1); Armstrong Co. v. Nu-Enamel Corp., 305 U. S. 315, 59 S. Ct. 191, 39 USPQ 402 (1938); Kellogg Co. v. National Biscuit Co., supra; William R. Warner & Co. v. Eli Lilly & Co., 265 U. S. 526, 44 S. Ct. 615 (1924); E. F. Drew & Co. v. Pam Industries, Inc., 299 F. 2d 777, 133 USPQ 1 (7 Cir. 1962); Blisscraft of Hollywood v. United Plastics Co., 294 F. 2d 694, 131 USPQ 55 (2 Cir. 1961); Douglas Laboratories Corp. v. Copper Tan, Inc., 210 F. 2d 453, 100 USPQ 237 (2 Cir.), cert. denied, 347 U. S. 968, 74 S. Ct. 779, 101 USPQ 505 (1954); National Nu-Grape Co. v. Guest, supra.

[3] That the terms used to comprise a trademark are misspelled, or represent the combination of several words or parts of words, or are otherwise so formed or malformed that the mark does not appear in any standard dictionary, will not preclude a finding of invalidity based on descriptiveness if the terms which are used, interpreted according to the basic rules of the English language, do sufficiently describe. See Armstrong Co. v. Nu-Enamel Corp., supra; National Nu-Grape Co. v. Guest, supra; James Heddon's Sons v. Millsite Steel & Wire Works, Inc., 35 F. Supp. 169, 174, 47 USPQ 106, 111-112 (E.D. Mich. 1940), aff'd, 128 F. 2d 6, 53 USPQ 579 (6 Cir.), cert. denied, 317 U. S. 764,

63 S. Ct. 79, 55 USPQ 493 (1942); 3 Callman, Unfair Competion and Trademarks §§ 71.1(c), 71.1(d).

[4] Applying these rules to plaintiffs' trademark "Flexitized," we conclude, as did the court below, that the mark is merely descriptive of the characteristics of the product marketed by the owner of the mark, a flexible collar stay capable of being molded to a desired shape. As the court below pointed out, the mark is a combination of the word "flex" and the suffix "ize." According to Webster's New International Dictionary (2d ed. 1961), "flex," used as a transitive verb, means "to bend." Used as a noun it means "the act or instance of bending or bowing." The suffix "ize," when affixed to a root, is said to create a verb meaning "to subject to the action, treatment or process denoted by the root," or "to render, make into, put into conformity with, or make like the thing, character, or quality denoted by the root."[2] Interpreting plaintiffs' trademark "Flexitized" in light of these definitions of its component parts, and according to the basic rules of English, we are of the opinion that "the mark simply means having been subjected to being bent," or "having been rendered bent," or "having been made into something bent," and, is hence, merely descriptive of plaintiffs' product. Moreover, construing "Flexitized" as having been formed by the root part of the adjective "flexible" and the suffix "ize," it must be interpreted as meaning "capable of being flexed, bent, or made pliable," and is thus further descriptive of plaintiffs' collar stay in light of its susceptibility to being shaped or molded by hand into a desirable style. Thus, we conclude that plaintiffs' trademark, though registered, was invalid, and as we also believe that the evidence amply supports the trial court's conclusion that

[2] The italics and parentheses used in the dictionary in setting forth these definitions have been eliminated.

"Flexitized" had acquired no secondary meaning, we affirm the dismissal of plaintiffs' claim for trademark infringement.

[5] We come now to a consideration of plaintiffs' claim for unfair competition, and at the outset we must determine whether to apply the law of New York or federal law, for jurisdiction over this claim may be based not only upon diversity of citizenship of the parties but, as the unfair competition claim has been joined with a substantial and related claim for infringement of a federally registered trademark, may also be based upon the pendent jurisdiction provisions of 28 U. S. C. § 1338(b). We conclude, as did the trial court, that the applicable law is the law of New York.

In Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F. 2d 538, 540-41, 110 USPQ 462, 463-464 (2 Cir. 1956), we had occasion to discuss in detail in a lengthy first footnote to that opinion, the law to be applied in adjudicating an unfair competition claim over which federal jurisdiction had been acquired only because of the pendent jurisdiction provisions of 28 U.S.C. § 1338 (b). Basing our conclusions there upon a synthesis of American Auto. Ass'n v. Spiegel, 205 F. 2d 771, 98 USPQ 1 (2 Cir.), cert. denied, 346 U. S. 887, 74 S. Ct. 138, 99 USPQ 490 (1953), wherein the court held that the Lanham Act did not provide a federally created right of unfair competition, and Artype, Inc. v. Zappulla, 228 F. 2d 695, 108 USPQ 51 (2 Cir. 1956), wherein this court held that state law governed an unfair competition claim joined with a federal trademark claim where diversity of citizenship existed, we indicated in Maternally Yours that state law was properly to govern even where federal jurisdiction was pendent, for we noted that the source of the right sued upon, rather than the ground used to obtain federal jurisdiction, should determine the governing law. Although we stated in footnote 1 of Maternally

Yours, Inc. that it was unnecessary at that time finally to dispose of the issues there discussed, we are now of the belief that, in light of our strong indication there set forth that state law was to govern even unfair competition claims that rested only upon pendent jurisdiction, and in light of the reasoning there set forth and the favorable discussion there undertaken of Artype v. Zappulla, supra, where, as here, federal jurisdiction rests both upon diversity of citizenship and pendent jurisdiction, state law ought to govern the result we reach.[3]

[7] It is clear to us that the evidence adduced below amply supported the trial court's finding that, as the law of unfair competition has developed in New York,[4] defendants' continued use of the word "Flexitized" after they had ceased to distribute plaintiffs' product made plaintiffs the victim of unfair competition, notwithstanding the fact that plaintiffs' mark had not yet acquired a secondary meaning as to either source or quality. Relief against un-

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[6] [3] Although, because of the interstate nature of plaintiffs' and defendants' businesses, the acts of unfair competition complained of resulted in injury in many states outside New York, we conclude that, according to New York's conflicts of laws rules, the substantive law governing the case is that of New York. See Babcock v. Jackson, 12 N. Y. 2d 473, 240 N. Y. S. 2d 743 (1963); Swift & Co. v. Bankers Trust Co., 280 N. Y. 135, 19 N.E. 2d 992 (1939).

[8] [4] We do not read the recent U. S. Supreme Court decision in Sears, Roebuck & Co. v. Stiffel Co., 84 S. Ct. 784, 140 USPQ 524 (1964), as establishing any constitutional bar to the application of state law in the instant case. The Court in the Sears, Roebuck & Co. case merely held that states cannot, under the guise of regulating unfair competition, grant what is in effect patent protection, and the Court expressly stated that states "may protect businesses in the use of their trademark, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods." 84 S. Ct. at 789, 140 USPQ at 528.

fair competition in cases like this is no longer limited in New York to situations where secondary meaning has been established so that a defendant can be charged with passing off his goods as those of another, but rather, as the result of doctrinal development in the wake of the United States Supreme Court's classic decision in International News Service v. Associated Press, 248 U. S. 215, 39 S. Ct. 68 (1918), relief has been granted in New York in a wide variety of situations to insure that "one may not misappropriate the results of the skill, expenditures and labors of a competitor," Electrolux Corp. v. Val-Worth, Inc., 6 N. Y. 2d 556, 567, 190 N. Y. S. 2d 977, 986, 123 USPQ 175, 180 (1959). See Flint v. Oleet Jewelry Mfg. Co., 133 F. Supp. 459, 464, 106 USPQ 69, 73 (SD NY

[9] 1955). A doctrine particularly developed in New York is that of granting relief upon the theory of the misappropriation of a property right or a commercial advantage of another, see Developments-Competitive Torts, 77 Harv. L. Rev. 888, 915 935 (1964), and the New York courts have even determined that it is not essential to the granting of

[10] relief that the parties be shown to be in actual competition which each other. (See Dior v. Milton, 9 Misc. 2d 425, 155 N. Y. S. 2d 443, 454, 110 USPQ 563, 567 (Sup. Ct. N. Y. Cty.), aff'd mem., 2 App. Div. 2d 878, 156 N. Y. S. 2d 996, 113 USPQ 210 (1st Dep't 1956), and cases there cited. As the court said in Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp., 199 Misc. 786, 101 N. Y. S. 2d 483, 489, 87 USPQ 173, 176 (Sup. Ct. N. Y. Cty. 1950), in a statement which was to be repeated later in Dior v. Milton, supra, 155 N. Y. S. 2d at 452, 110 USPQ at 566: "With the passage of those simple and halcyon days when the chief business malpractice was 'palming off' and with the development of more complex busines relationships and, unfortunately, malpractices, many courts, including the courts of this state, extended the doctrine of unfair competition

beyond cases of 'palming off.' The extension resulted in the granting of relief in cases where there was no fraud on the public, but only a misappropriation for the commercial advantage of one person of a benefit or 'property right' belonging to another."

[11] Particularly where the defendant's conduct has involved a clear attempt to profit at the expense of the plaintiff, Electrolux Corp. v. Val-Worth, Inc., supra; Reiner v. North American Newspaper Alliance, 259 N. Y. 250, 181 N.E. 561 (1932); Madison Square Garden Corp. v. Universal Pictures Co., 255 App. Div. 459, 7 N. Y. S. 2d 845, 39 USPQ 551 (1st Dep't 1938); see Playland Holding Corp. v. Playland Center, Inc., 1 N. Y. 2d 300, 135 N. E. 2d 204, 152 N. Y. S. 2d 462, 110 USPQ 68 (1956), or a breach of confidence by the defendant, Reiner v. North American Newspaper Alliance, supra; Dior v. Milton, supra; Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp., supra, New York courts have deemed the conduct to be unfair competition despite the fact that plaintiff's mark had not acquired a secondary meaning. Our Court explicitly recognized in Norwich Pharmacal Co. v. Sterling Drug, Inc., 271 F. 2d 569, 571, 123 USPQ 372, 374 (2 Cir. 1959), cert. denied, 362 U. S. 919, 80 S. Ct. 671, 124 USPQ 535 (1960), that, according to New York law, relief without a showing of secondary meaning is appropriate under such circumstances.

In the case at bar, the court below expressly found that, while plaintiffs had not succeeded in imbuing the name "Flexitized" with a secondary meaning, the name had nevertheless acquired a familiarity among prospective purchasers of collar stays or garments containing them which made such prospective buyers more likely to purchase items called "Flexitized" because of that name in connection with them. Also, the defendants' conduct in continuing to use, without plaintiffs' permission, the name

"Flexitized" after its contract breach was expressly found to have been the result of a deliberate attempt to exploit purchaser familiarity with the name, and, as is clear from our prior discussion of the breach of contract claim in this case, such conduct by defendants was also directly connected with a breach on their part of a fiduciary relationship which had arisen upon their becoming exclusive sales agents for plaintiffs. Under these circumstances we think that defendants were properly chargeable with having misappropriated a valuable property right or commercial benefit under circumstances meriting a finding of unfair competition according to the law of New York, and the trial court was therefore correct in permanently enjoining such conduct by defendant.

[12] Plaintiffs requested, however, yet additional relief, an accounting of profits to recover damages sustained through defendants' use of the word "Flexitized" in connection with goods competitive with those of plaintiffs after the date upon which the breached distributorship agreement was to end,[5] but the trial court refused to order such an accounting. We think that this was error. Although the lower court noted that it had been unable to find any New York case authorizing the ordering of an accounting in analogous circumstances, we are of the view that, if plaintiffs are able to establish their sought-for lost profits with reasonable certainty, nothing in the case law of New York prevents the granting of accounting

[5] Lost profits resulting from defendants' use of the name "Flexitized" after the breach and during the five-year contract period were within the damages recovered by plaintiffs on the breach of contract claim. Plaintiffs' request for an accounting is for the purpose of recovering profits subsequently lost due to defendants' wrongful use of the name "Flexitized" after the running of the contract period, when such use constituted unfair competition but was not in breach of any contract.

relief. Indeed there is some authority in New York which can be construed as at least tacit approval of the granting of such relief in circumstanceslige these, as in Madison Square Garden Corp. v. Universal Pictures Corp., supra, where the court, although expressly dealing only with the merits of an unfair competition claim, upheld the sufficiency of a complaint wherein an injunction, an accounting and damages were all sought, without indicating that any one of the desired forms of relief would be improper. And in those cases where accounting relief has been denied, no lost profits or like damages recoverable through an accounting were apparently proven. Thus, in Electrolux Corp. v. Val-Worth, Inc., supra, the New York Court of Appeals based its refusal to grant an accounting on the ground that, under the particular circumstances of that case, there was no indication that purchases from the defendant represented losses of sales by the plaintiff, the court there finding that the damage that resulted from the defendant's unfair competition had been chiefly to plaintiff's good name and reputation. A remand was ordered to give plaintiff a chance to prove such damage to its business, despite the court's expressed belief that the amount of such damages would be very difficult to prove. That the court was of the opinion that the remedy of an accounting was not, however, to be foreclosed in all cases of unfair competition accomplished through misappropriation was made clear by its statement, quoting Roman Silversmiths v. Hampshire Silver Co., 282 App. Div. 21, 27, 121 N. Y. S. 2d 329, 335, 97 USPQ 578, 580 (1st Dep't 1953), aff'd per curiam, 306 N. Y. 894, 119 N. E. 2d 593, 101 USPQ 350 (1954), made in connection with its discussion of the appropriateness of the accounting remedy, that, "What is true of all actions, is especially true in a suit for unfair competition: disposition of each case peculiarly depends upon the precise state of facts

disclosed." 6 N. Y. 2d at 571, 190 N. Y. S. 2d at 898, 123 USPQ at 182. In the case at bar the evil of the conduct found to constitute unfair competition was not merely resultant injury to plaintiffs' good name and reputation. Rather, the trial court expressly found—and based its ruling that unfair competition had been engaged in on this very finding—that plaintiffs' name "Flexitized" had acquired a public familiarity which made prospective purchasers more likely to buy products connected with that name, and that defendants had unfairly competed by misappropriating this public familiarity. Thus, defendants by misappropriating to their own use something of plaintiffs which made prospective purchasers more likely to buy a product like plaintiffs' must have wrongfully caused plaintiffs to suffer losses of sales, and hence losses of profits, which, if provable in amount, ought to be recoverable. Therefore, plaintiffs on remand should be permitted to recover any lost profits they can establish they have suffered.

Reversed and remanded for further proceedings not inconsistent with this opinion.

APPENDIX B

(Opinion of the District Court)

OPINION OF TYLER, D. J.

(Tr. pp. 1215-1255)

This action was tried before this court and a jury on January 9, 10, 11 and 14 through 18, 1963. Plaintiffs' complaint alleges three claims: breach of contract, trademark infringement, and unfair competition. In their prayer for relief plaintiffs seek money-damages on all three claims and an order enjoining defendants from unauthorized use of the trade name "Flexitized".

Jurisdiction of this court has been invoked by virtue of certain claims "arising under the laws of the United States" (28 U. S. C. 1338) and on the basis of diversity of citizenship of the parties (28 U. S. C. 1332).

With consent of the parties, the issues of liability for trademark infringement and unfair competition, resultant damages, if any, in the trademark infringement and unfair competition claims, along with the question of injunctive relief, were submitted to the court.[1] The issues of liability for breach of contract, as well as of damages, if any, for breach of contract, were to be decided by the jury.[2]

The product of the jury's deliberations in this case is in the form of answers to twenty-four written questions propounded by the court and submitted to the jury. These questions, and the answers to them, serve a dual function. With respect to the issues to be determined by the jury, the answers constitute the special verdict provided by F. R. C. P., Rule 49(a). With respect to the issues to

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[1] Similarly, of course, defendants' alleged counterclaims relating to plaintiffs' trademark were reserved for the court to decide. In substance, defendants' counterclaims are for "declaratory judgment of non-infringement," for cancellation of the mark and for damages based upon allegations that the mark was fraudulently procured.

[2] Prior to trial, plaintiffs had asserted, at least formalistically, a demand for a jury trial on all three of their claims.

be decided by the court, the answers are advisory only. F. R. C. P., Rule 39(c).[3]

By consent of the parties, judgment in all branches of the case was to abide the event of this opinion, which, accordingly, combines declaration of judgment under Rules 49(a) and 58, with the disposition, including findings of fact and conclusions of law, of the issues submitted to the court (F. R. C. P., Rule 39(a), 52(a)).

The following facts were established at trial.

Mr. Louis Graver, president of both plaintiff corporations, was for some time prior to 1953 engaged in various capacities in the manufacture and sale of textiles and related items. In the year 1953 Graver became attracted to the idea of developing a flexible garment "stay" which, when sewn into a portion of a garment, such as a shirt collar, would have the capacity of retaining a particular configuration or style to which the wearer could shape it.

Mr. Graver, together with others who were to become the principals of both plaintiff companies, developed such a product in 1953. In July or August of that year they coined the word "Flexitized" and on September 17, 1953, plaintiff Flexitized, Inc. as the manufacturer, and plaintiff Flexitized Sales Corp., as the sales agency, were organized under the laws of California.

Shortly thereafter, Alpha Dye Cutting and Manufacturing Co., a California corporation, became the plaintiffs' distributors for the West Coast area.

Late in 1953 there were conversations between Mr. Graver and representatives of defendant Dubin-Haskell Lining Corp. ("Dubin-Haskell") concerning the possibility of Dubin-Haskell or an affiliated company becoming plaintiffs' distributing agent, purchasing stays for resale to garment manufacturers in the area of the United States east of the Rocky Mountains. These conversations led to an exchange of letters between the parties.

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[3] (American) Lumbermens Mut. Cas. Co. v. Timms & Howard, 108 F. 2d 497, 500 (2d Cir. 1939).

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The first of these, dated December 4, 1953, is from Graver to Mr. Herbert Haskell of Dubin-Haskell, and sets forth the "major" terms of an "agreement" reached "pursuant to our today's conversation" [by telephone]. There followed a reply letter, dated December 8, 1953, from Haskell to Graver which, referring to the "contractual agreement of December 4", suggests certain modifications of the terms stated in the December 4 letter.

The letter of December 8 states in part:

> "As we both thought, it would be a good idea to get your attorney to write up an agreement covering all these points as we agreed and forward same to us to make this legally official. In the meantime, as per your statement, we will proceed and start working on this product immediately".

No such formal written agreement was ever prepared or adopted by the parties. The letters do not, nor do they purport to, incorporate all the terms of the agreement reached by the parties. It is clear that the parties agreed that Dubin-Haskell, or an affiliated company, was to become the plaintiffs' exclusive distributor throughout the United States, with the exception of the eleven Western states; that the contract was to run for five years; and that "Dubin-Haskell would not have the right to sell a competing product, directly or indirectly (for the life of this contract)".

Under date of December 17, 1953, Jesse Blattel, counsel acting on behalf of the plaintiffs, wrote to Mr. Haskell as follows:

> "I am presently in the process of drawing a proposed agreement following generally along the lines outlined in your correspondence with Mr. Graver. He informs me that you intend to form a corporation which will incorporate the name 'Flexitized'. I would like to know something about the manner in which

> **the corporation is to be set up, including capitalization and stock ownership. I have suggested to Mr. Graver that the use of the name 'Flexitized' in the proposed corporation be conditioned upon the faithful performance of the proposed agreement and that the corporation would agree to change its name in the event it no longer handled Flexitized stays.**
>
> **"If either you or your attorneys have any suggestions regarding the proposed agreement. I would greatly appreciate your transmitting them to me".**

It does not appear that defendants responded to this letter or to the points raised in it. Specifically, there appears to be no other writing relating to the terms under which Dubin-Haskell would organize its sales agency as distributor for plaintiffs' stays.

Defendant National Flexitized Corp. ("National Flexitized") was organized by Dubin-Haskell in the early part of 1954 as distributor for the plaintiffs' product. During the years 1954, 1955, and 1956, National Flexitized purchased, for resale to garment manufacturers, plaintiffs' stays in dollar volume in excess of $100,000 per annum.[4]

The trademark "Flexitized", Registration No. 601,713, was registered by the United States Patent Office on February 1, 1955 in the name of Flexitized, Inc. and such registration is still in effect. Earlier, the plaintiffs had applied for, but were not successful in securing, a patent on their "Flexitized" stay.

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[4] Sales by plaintiffs to National Flexitized were as follows:

Jan. 1, 1954-Aug. 31, 1954: $ 77,000.
Sept. 1, 1954-Aug. 31, 1955: $130,057.
Sept. 1, 1956-Aug. 31, 1956: $143,388.
Sept. 1, 1956-Aug. 31, 1957: $ 39,278.

Sales by the plaintiffs to Alpha Dye Cutting and Manufacturing Co. were, for the same four periods respectively: $11,160; $23,127; $25,824; $40,524.

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Sales by National Flexitized of the plaintiffs' stays fell off markedly in the latter part of 1956 and early part of 1957. The reason for this is, in part, disputed.

Defendants maintain that the sole cause was the entry onto the market of a stay made of a material called "mylar" which, though it did not have the property of being shapeable by the wearer, nonetheless was priced substantially below the plaintiffs' stay and was highly competitive with it.

During a substantial portion of 1956 and 1957 defendant National Flexitized unbeknownst to plaintiffs, was selling stays, including the mylar stay, which were not made or sold by plaintiffs.

In a letter dated April 8, 1957, from Mr. Henry Amber of Flexitized Sales Corp., to Mr. Haskell, Mr. Amber stated:

> "We are going to attempt to sell the product by other means. * * * I am sure you will understand as you were doing absolutely nothing with it and we cannot afford to have it be idle. We will of course, not leave you out on any limb and if in the next thirty days you have any requirements that need to be taken care of we will continue to service you for that period".

On July 16, 1957, Mr. Garver wrote as follows to Mr. Haskell:

> "We have evidence to the effect that you are handling a competitive stay, which is in direct violation of our arrangement. Therefore, we have decided to terminate relations with National Flexitized Corporation, the same to take effect immediately. We will, however, fill any emergency orders up until August 1, 1957.
>
> "Furthermore, we request that you immediately discontinue using the name 'Flexitized' in your operations, as we have learned that you are selling other products under this name".

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Plantiffs transferred their business from the defendants to the Eagle Neckband Corp., a New York corporation.

During the life of the distributorship agreement between plaintiffs and defendants, the word "Flexitized" was used in advertising material paid for by defendants as well as by plaintiffs. This material included brochures, advertisements both in trade publications and in magazines of general circulation, and "hang tags" which were attached to garments containing the stays. Some of the advertising material was prepared by plaintiffs and forwarded to defendants for use by them.

Since the termination of this agreement, defendants have continued to use the word "Flexitized", both in the corporate name of defendant National Flexitized, and in connection with the marketing and distribution of stays not made or sold by plaintiffs.

The Breach of Contract Claim

On the claim for breach of contract, the jury expressly found: (a) that there was a contract between both plaintiffs on the one side and both defendants on the other;[5] (b) that this contract provided that the defendants, as sales agents or distributors of the plaintiffs, undertook (i) not to sell competing products through defendant National Flexitized during the life of the contract and (ii) to use best efforts to sell plaintiffs' stays during the life of the contract; (c) that both these contractual provisions were

[5] Since the defendants' obligations under this contract were performed chiefly by defendant National Flexitized, the jury was asked whether there were present the factual elements which, supposing that defendant Dubin-Haskell was an original contracting party, would give rise to the finding that there had been a novation in consequence of which Dubin-Haskell had ceased to be a contracting party. The answers of the jury to these questions negatived this possibility. (Questions 3, 4.)

breached by both defendants; (d) that these breaches caused the plaintiffs injury and resultant damages in the amount of $27,000; and (e) that the plaintiffs did not fail to take measures reasonably available to mitigate the injury caused by these breaches.

Since there was adequate evidence to support each of these findings of fact made by the jury,[6] it is my duty to declare judgment, under F. R. C. P., Rule 58, in favor of both plaintiffs and against both defendants jointly and severally in the amount of $27,000 on the claim for breach of contract.

THE CLAIM OF TRADEMARK INFRINGEMENT AND DEFENDANTS' RELATED COUNTERCLAIMS

Turning next to the claim of trademark infringement, defendants' first contention is that the mark "Flexitized" is "merely descriptive" within the meaning of 15 U. S. C. 1052(e)(1) and therefore not a valid mark. Defendants seek a declaratory judgment of such invalidity and the entry of an appropriate order under 15 U. S. C. 1119.

The registration of a trademark is prima facie evidence of its validity (15 U. S. C. § 1115(1)(a)), but a mark which, as applied to the goods of the applicant, is "merely descriptive" should be denied registration. 15 U. S. C. § 1052(e)(1).

[1] If a trademark describes the qualities, ingredients or characteristics of the product to which it is attached,

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[6] As to the amount of damages, there was evidence from which the jury could conclude that (a) at the time the contract was terminated in consequence of the defendants' breach, it had at least 15 and perhaps as many as 20 months still to run, (b) a profit of approximately $39,000 would have accrued to plaintiffs but for the breach of contract, and (c) the plaintiffs were able to recoup a portion of these lost profits through sales to a distributor retained, after the breach, in the stead of defendants.

it is descriptive. Estate of P. D. Beckwith, Inc. v. Commissioner of Patents, 252 U. S. 538, 543 (1920).

[2] Arguably, since the question must turn upon a realistic appraisal of the individual mark and the goods to which it is applied, prior decisions may not be of great value in deciding the issue whether a given mark is descriptive.

Nevertheless, a mark somewhat analogous to the one at bar was litigated in Standard Paint Co. v. Trinidad Asphalt Mfg. Co., 220 U. S. 446, 455 (1911). The Supreme Court found that, as applied to the goods in question, a type of roofing material, the mark "ruberoid" simply meant "like rubber" and held that the mark was invalid as being descriptive.

[3] It may be noted that it is of no consequence that plaintiffs coined the word for even if the word does not appear in the accepted dictionaries, the latter fact, standing alone, does not prove that the word is not descriptive.[7]

[4] "Flexitized", obviously, is in significant part a combination of the prefix "flex" and the suffix "ize". Webster's Third New International Dictionary (Unabridged; 1961) defines the word "flex" as "to bend". It defines the root "ize" as a suffix which gives to verbs the sense " * * * to cause to have or appear to have some (specified) quality * * * ". The coined word "Flexitized" is a description, in condensed form, of the outstanding characteristic of the flexible collar stays made or sold by plaintiffs.[8]

[8] Plaintiffs argue that the distinctive quality of the collar stays to which the word "Flexitized" was, at least originally, applied, is their capacity to retain the shape the wearer chooses to give them. But the word "flex" may give this connotation as well, as is illustrated in one meaning of the word "flexible," which is "willing or ready to yield to the influence of others: tractable, manageable * * *."

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[7] Franklin Knitting Mills, Inc. v. Fashionit Sweater Mills, Inc., 297 F. 247 (S. D. N. Y. 1923), aff'd 4 F. 2d 1018 (2d Cir. 1925) ("Fashionknit" as applied to knitted clothing).

This court holds, therefore, that the word "Flexitized" is, as applied to the goods in question, "merely descriptive" and thus not a valid mark.

In this view of the matter, it is unnecessary to pass upon the other defenses and counterclaims by defendants to the claim of trademark infringement, which, in any event, are, in the opinion of the writer, largely insubstantial.

UNFAIR COMPETITION CLAIM

(A) *The Question of the Applicable Law*

Turning to plaintiffs' claim of unfair competition, there is at the threshold of this subject the question of what law governs a claim for unfair competition where, as in this case, it is coupled with a substantial and related claim of trademark infringement, under 28 U.S.C. 1338(b) and there is also diversity of citizenship between the parties.[9]

The Court of Appeals of this Circuit has adverted to this question, but has expressly declined to give a definitive answer to it, on the grounds that the controversies before it rendered the choice of law problem largely, if not entirely, theoretical. Hygienic Specialties Co. v. H. G. Salzman, Inc., 302 F. 2d 614, 619 n. 9, 133 USPQ 96, 101 (2d Cir. 1962); Maternally Yours, Inc. v. Your Maternity Shop, 234 F. 2d 538, 110 USPQ 462 (2d Cir. 1956). This course does not commend itself here since this court concludes that upon the facts at bar the choice of law question is of more than academic interest.[10]

It has been suggested that federal law should govern a claim of unfair competition, at least when joined with a claim for trademark infringement. Maternally Yours, Inc.

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[9] Despite several invitations to do so by this court, counsel for the parties here were reluctant to take a firm position, with stated reasons therefor, on this question. However, defense counsel finally did indicate in general terms his view that "federal law" is controlling.

[10] See note 21 post.

v. Your Maternity Shop, 234 F. 2d 538, 545-547, 110 USPQ 462, 467-469 (2d Cir. 1956) (concurring opinion). The phrase, "indeterminate general law," Hygienic Specialties Co. v. H. G. Salzman, Inc., 302 F. 2d 614, 619 n. 9, 133 USPQ 96, 101 (2d Cir. 1962), has also been suggested as the law which should control in such cases. (This latter phrase may be meant to denote federal law, or perhaps, a constitutionally undifferentiated composite of both state and federal law. (Ibid.)

There is much to be said for applying a potentially uniform federal law of unfair competition, at least where multistate activity is involved. In addition to the conceptual and practical difficulties of such a doctrine,[11] however, there is the fact that " * * * The prevailing view subsequent to Erie [Erie R. Co. v. Tompkins, 304 U. S. 64 (1938)] has been that federal law governed infringement of federally-registered trademarks, while state law governed common law unfair competition. * * * [Citations, largely omitted, include Pecheur Lozenge Co., Inc. v. National Candy Co., Inc., 315 U. S. 666, 53 USPQ 1 (1942); see also, Fashion Originators Guild of America Inc. v. Federal Trade Commission, 312 U. S. 457, 468, 48 USPQ 483, 486

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[11] The question is often put as involving a "choice" of law. But the initial and most serious question, of course, is not one of "choice" but whether a federal law of unfair competition in fact exists. The second question is, in what type of case and in what courts may, or must, such a law be applied.

If the touchstone for the applicability of a federal law of unfair competition is joinder with a claim of infringement under 28 U. S. C. 1338(b), such a federal law would encompass cases not necessarily involving interstate acts of unfair competition, and would exclude from its scope unfair competition with respect to unregistered or common law trademarks. Moreover, again positing the existence of a federal law of unfair competition, there would arise the further question whether it is to replace or, in the alternative, to be conjunctive with, rights afforded by state laws of unfair competition, as, for instance, in cases where the latter were more liberal or inclusive.

(1941).]" Maternally Yours, supra, p. 540 n. 1, 110 USPQ at 463.

More important than the weight of precedent.

> "* * * [I]t is the *source* of the right sued upon, and not the ground on which federal jurisdiction over the case is founded, which determines the governing law * * *. Thus, the Erie doctrine applies, whatever the ground for federal jurisdiction, to any ... or claim which has its source in state law." Maternally Yours, supra, pp. 540-541 n. 1, 110 USPQ at 463-464.

The Court of Appeals of this Circuit has held, and its conclusion does not seem assailable, that there is no federally created cause of action for unfair competition. American Automobile Association v. Spiegel, 205 F. 2d 771, 98 USPQ 1 (2d Cir. 1953), cert. den. 346 U. S. 887, 99 USPQ 490 (1953) (but cf., Judge Clark's concurring opinion in Maternally Yours, supra, pp. 546-547, 110 USPQ at 468-469).

[5] Although defendants are New York corporations and, so far as appears from the record, have their principal place of business in New York, their claimed acts of unfair competition took place, or were "completed", in many other states as well.[12] But the courts of New York do not, in multi-state unfair competition cases, apply conflicts of law principles to make controlling the law of the individual states where each tort took place. E.g., Keasbey v. The Brooklyn Chemical Works, 142 N. Y. 467, 37 N. E. 476 (1894).[13]

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[12] Restatement of the Law of Conflict of Law, § 377 (1934) (Tort takes place where the completing event, normally the injury, occurs).

[13] Even supposing that, notwithstanding Klaxon Co. v. Stenter Electric Mfg. Co., Inc., 313 U. S. 487, 49 USPQ 515 (1941), the federal courts were free to apply their own conflicts of law rule in these cases, there would be little to recommend applying the law of many different jurisdictions in one case.

[6] The court concludes that the law controlling the claim of unfair competition in the case at bar is the common law of unfair competition, as that law is applied and interpreted by the courts of New York. Cf., National Fruit Product Co., Inc. v. Dwinell-Wright Co., 47 F. Supp. 499, 505, 55 USPQ 199, 206 (D.C. Mass. 1942) ("local common law"),[14] aff'd 140 F. 2d 618, 60 USPQ 304 (1st Cir. 1944).

(B) *The Issue and Proofs of Unfair Competition*

As heretofore indicated, the basic factual questions on which the issue of unfair competition turns were submitted to and answered by the jury. Two theories or types of unfair competition are implicit in the questions put to the jury on this subject. These two theories can best be elucidated by setting forth here the questions propounded with respect to each:

With respect to the constitutionality of New York courts applying New York law to extra-state torts, it is sufficient, at least, that there is a unitary pattern of unfair competition and that the acts of unfair competition "where at least initiated in this state and in some instances were completely performed here" (Swanson Mfg. Co. v. Feinberg-Henry Mfg. Co., 54 F. Supp. 805, 813, 59 USPQ 10, 16 (S. D. N. Y. 1943), modified 147 F. 2d 500, 64 USPQ 316 (2d Cir. 1945)).

[14] National Fruit, supra, at pp. 502-505, 55 USPQ at 203-206, contains an exemplary discussion by Wyzanski, J., of the full range of issues raised by the conflicts problem in unfair competition cases. A subsequent case in the same District repudiated Judge Wyzanski's holding that the "local common law" governs, and found that federal law governed the claim of unfair competition asserted. Bulova Watch Co., Inc. v. Stolzberg, 69 F. Supp. 543, 72 USPQ 72 (D. C. Mass. 1947). However, unexceptionable the statement in Bulova, p. 546, 72 USPQ at 74, that "* * * there is a strong policy in favor of interstate uniformity in the field of unfair competition," it is questionable whether this, standing alone, justified the conclusion that there is a federal law of unfair competition.

Appendix B

(1) *First type of unfair competition*

Question # 18. "If defendant National Flexitized used the word 'Flexitized' in connection with stays not made or sold by plaintiffs, did a significant number of purchasers of stays or garments containing such items buy such stays or garments because of a mistaken belief that the stays were made or sold by plaintiffs?" [Answer: "Yes"].

(2) *Second type of unfair competition*

Question # 13. "Did a significantly large number of purchasers of collar stays or garments containing such items become familiar with the word 'Flexitized' *before* defendant National Flexitized started selling stays made or sold by companies other than plaintiffs?" [Answer: "Yes"].

Question # 14. "If the answer to # 13 is yes, did this familiarity make these purchasers more likely to buy stays or garments containing such items called 'Flexitized' because the word 'Flexitized' was used in connection with them?" [Answer: "Yes"].

Question # 15. "If the answer to # 14 is yes, did defendant National Flexitized use, without permission, the word 'Flexitized' in connection with stays not made or sold by plaintiffs with the deliberate intention of exploiting the purchasers' familiarity with the word 'Flexitized'?" [Answer: "Yes"].

[7] The first-stated type of unfair competition is, of course, the familiar category commonly referred to as "palming-off". The gravamen here is inducing purchasers to buy because of a mistaken belief as to the source of the goods. Cf., Lucien Lelong, Inc. v. Lander Co., 164 F. 2d 395, 397, 75 USPQ 302, 303 (2d Cir. 1947).

Though the point is not frequently articulated, the palming off theory of unfair competition often extends

further to cover those cases where, at least arguably, the reality is less source-confusion than product-confusion.[15]

Both these branches of the palming-off rule are alike in one critical respect. Both are directed to the purchaser's conscious and rational choice between products, based on certain facts, and the thrust of each is to forbid interference with the exercise of this choice by deception. The source-confusion branch of the palming-off rule forbids deceiving the purchaser as to the source of the goods; the product-confusion branch of the rule forbids deceiving the purchaser as to the identity of the goods, whatever aspect of such identity, may be a chief significance to the purchaser.

[9] The jury, in answer to a special question (# 18) submitted to it by this court, found that there was such "traditional" palming-off in the case at bar. Notwithstanding this finding, the court, upon review of the evidence, finds little or no proof that a substantial number of purchasers were induced to buy because of mistaken belief as to either the source or the nature of the stay being purchased.[16] Hence, it is concluded that as a matter of law

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[8] [15] A major reason why this extension is not always articulated is that unfair competition, in the area of trademarks, is assumed to have essentially the same principles as trademark infringement, Speed Products Co., Inc. v. Timmerman Products, Inc., 179 F. 2d 778, 781, 83 USPQ 490, 492-493 (2d Cir. 1949), and the Lanham Act refers only to "confusion * * * as to source of origin." 15 U. S. C. 1114(1)(a). This has led to continued use of this verbal formula in cases where the "origin" of goods may be unknown or of little significance to the purchaser. See, for example, Feathercombs, Inc. v. Solo Products Corp., 306 F. 2d 251, 134 USPQ 209 (2d Cir. 1962) cert. den. 371 U. S. 910, 135 USPQ 503 (1962) (hair combs); Hygienic Specialties Co. v. H. G. Salzman, Inc., 302 F. 2d 614, 133 USPQ 96 (2d Cir. 1962) (soap dishes).

[16] Indeed, Jerome White, the only one of plaintiffs' witnesses who was directly asked to give evidence on these fact issues, testified rather categorically that in making purchases of flexitized stays, he neither knew nor cared about the source of precise identity of the goods.

plaintiffs have failed to prove "secondary meaning" of their mark or traditional confusion of source or identity of the goods as caused by acts and practices of defendants.

[10] The theory underlying the type of unfair competition delineated as the "second type" (Questions 13-15), above, gives rise to more difficult problems and leads to different findings and conclusions. This concept, which shall be referred to here as "free ride" unfair competition, lays measurably less stress on the trademark as a symbol standing for a specified source or specified qualities in the mind of the purchaser. Indeed, free-ride unfair, competition may exist where buyers have not, in any meaningful sense, been "deceived."

Rather, "free-ride" unfair competition emphasizes the element of wrongful expropriation, in the use by one of the value, rightfully belonging to another, which is inherent in purchaser familiarity with a trademark, trade name, package design, or similar advertising symbol.[17]

[11] This expropriation of the good will of a trademark or other symbol is, to be sure, normally one element in "palming-off" unfair competition. But what is suggested here is that the expropriation should, in appropriate circumstances,[18] be recognized as a self-sufficient ground for an action in unfair competition.

The legitimacy of deeming expropriation to be an independent basis for unfair competition in the field of trade names is grounded on the following observation. It cannot

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[17] Specifically, the injury may be caused by diluting the trade name, by tarnishing it through association with inferior goods or services, or where the second-comer is a competitor, by diverting trade from the first-comer.

[18] The numerous factors which determine, in any given case of unfair competition, what relief, if any, should be granted, are outlined, post, pp. 599 ff.

be doubted that the buying public tends to favor a product whose name or package design has become familiar through advertising or by other means, rather than one whose name and package design are totally unknown.

This effect rests minimally on the sources and the qualities of the competing products, to which the palming-off theory is restricted. Indeed, the qualities of the competing products may be either nearly identical, or else unknown; and the supposed virtues of the competing manufacturers may likewise be unknown or of little actual significance in the purchaser's choice. In such cases, the cachet or familiarity of a trade name may well be the one dominant factor in the purchaser's choice.

The articulation of "free-ride" as an independent theory of unfair competition in the area of trade name protection, is, in the opinion of the writer, countenanced by the interpretation which the New York courts have given to the common law of unfair competition.

In a case involving the pirating of dress designs, Dior v. Milton, 9 Misc. 2d 425, 155 N. Y. S. 2d 443, 110 USPQ 563 (S. Ct., N. Y. Co., 1956) (Greenberg, J.), aff'd 2 App. Div. 2d 882, 156 N. Y. S. 2d 996, 113 USPQ 210 (1st Dept. 1956), it was stated, in the course of an excellent discussion of the law of unfair competition that:

> "With the passing of those simple and halcyon days, when the chief business practice was 'palming off,' and with the development of more complex business relationships and, unfortunately, malpractices, many courts, including the courts of this state, extended the doctrine of unfair competition beyond the cases of 'palming off.' The extension resulted in the granting of relief in cases where there was no fraud on the public, but only a misappropriation for the commercial advantage of a benefit or 'property right' belonging to another." Id., p. 452, 110 USPQ at 566.

Appendix B

A similar view, with respect to different fact situations, is manifested in other cases as well. Electrolux Corp. v. Val-Worth, Inc., 6 N. Y. 2d 556, 567-568, 161 N. E. 2d 197, 190 N. Y. S. 2d 977, 123 USPQ 175 (1959); Playland Holding Corp. v. Playland Center, Inc., 1 N. Y. 2d 300, 135 N. E. 2d 202, 152 N. Y. S. 2d 462, 110 USPQ 68 (1956); Vaudable v. Montmartre, Inc., 20 Misc. 2d 757, 193 N. Y. S. 2d 332, 335, 123 USPQ 357, 358 (S. Ct., N. Y. Co., 1959) (Greenberg, J.) ("A wrongful attempt to suggest an association or connection of some sort is sufficient to warrant relief to prevent confusion in the public mind as well as dilution of plaintiffs' trade name."); Pharmaceuticals, Inc. v. United Whelan Corp., 22 Misc. 2d 532, 197 N. Y. S. 2d 22, 24, 123 USPQ 565 (S. Ct., N. Y. Co., 1959).

[12] This view, since it is grounded upon a theory of tortious misappropriation, places great emphasis upon, if it does not make a requirement of, wrongful intent:

> "Equity will, therefore, enjoin as unfair competition the adoption or use of a trade name, trademark or advertising of another, where the apparent purpose is to reap where one has not sown, or to gather where one has not planted, or to build upon, or profit from, the name, reputation, good will or work of another * * *." Harvey Machine Co. v. Harvey Aluminum Corp., 9 Misc. 2d 1078, 175 N. Y. S. 2d 288, at p. 291, 113 USPQ 437, 438 (S. Ct., N. Y. Co., 1957). See, also, Mainzer, Inc. v. Gruberth, 237 App. Div. 89, 93, 260 N. Y. S. 694 (1st Dept. 1932), aff'd 262 N. Y. 484, 188 N. E. 30 (1933); Vaudable v. Montmartre, Inc., supra, at p. 335, 123 USPQ at 358.

In these cases the New York courts have minimized, if not eliminated, the requirement that plaintiff show that

the mark for which he seeks protection has acquired a "secondary meaning" such that it has come to "stand for" the plaintiffs' business.[19]

[13] Where the gravamen is unfair or wrongful misappropriation of the value represented by public familiarity with the trade name or mark itself, then such secondary meaning, like the element of public deception, ceases to be a prerequisite for the cause of action.[20]

[14] It is important to observe that the New York courts, in applying the misappropriation rationale to trade name cases, for the most part have granted relief only to the extent of enjoining the offending conduct. This in part may be ascribed to the difficulty of computing money-damages in such situations. Of more significance, it also may be attributable, in part, to the central role which tradi-

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[19] Ed Sullivan v. Ed Sullivan Radio & T.V. Inc., 1 App. Div. 2d 609, 152 N. Y. S. 2d 227, 110 USPQ 106 (1st Dept. 1956); Avon Periodicals, Inc. v. Ziff-Davis Publishing Co., 282 App. Div. 200, 122 N. Y. S. 2d 92, 98 USPQ 38 (1st Dept. 1953); Santa's Workshop, Inc. v. Sterling, 282 App. Div. 328, 329-330, 122 N. Y. S. 2d 488, 98 USPQ 463 (3d Dept. 1953). See also, Santa's Workshop, Inc. v. Sterling, 2 App. Div. 2d 262, 153 N. Y. S. 2d 839, 111 USPQ 120 (3d Dept. 1956) aff'd 3 N. Y. 2d 757, 143 N. E. 2d 529, 163 N. Y. S. 2d 986, 114 USPQ 179 (1957); Artype, Inc. v. Zappulla, 228 F. 2d 695, 697, 108 USPQ 51, 53 (2d Cir. 1956) (New York law applied).

[20] Another way of expressing the same point might be to say that where unfair or wrongful expropriation is the gravamen of a second-comer's use of a mark, the "secondary meaning" which the first-comer must establish, is that the mark developed, to some substantial degree, favorable public familiarity or cachet, which it was the second-comer's intention to exploit.

tionally equitable factors play is extending protection to interests not strictly classifiable as "property rights".[21]

This court concludes, therefore, that the jury's findings, particularly in answer to Questions 13, 14 and 15, which the court "finds" and adopts as being amply supported by the evidence, establish that defendants unfairly and wrongfully enjoyed a "free ride" with the word "Flexitized" in connection with their sales and business operations.

[15] The law of unfair competition, however, must be applied flexibly, and whether relief should be granted in a given instance must be determined by an appraisal of the particular circumstances of the case.

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[21] It may be argued that this proposition, in combination with the traditionally broad discretion of courts of equity, would countenance articulation of "freeride" unfair competition not only under the law of New York, but also under the "general indeterminate law" of unfair competition, as interpreted by this Circuit. This court, of course, need not and does not decide this question, but the following authorities are perhaps worth noting in this connection. Compare Dawn Donut Co., Inc. v. Hart's Food Stores, Inc., 267 F. 2d 358, 121 USPQ 430 (2d Cir. 1959), with Ed Sullivan, supra, 1 App. Div. 2d 609, 152 N. Y. S. 2d 227, 110 USPQ 106 (1st Dept. 1956). This Circuit has firmly adhered to a strict "palming-off" test. Triumph Hosiery Mills, Inc. v. Triumph International Corp., 308 F. 2d 196, 199, 135 USPQ 45, 47-48 (2d Cir. 1962); Hygienic Specialties Co. v. H. G. Salzman, Inc., 302 F. 2d 614, 622, 133 USPQ 96, 102-103 (2d Cir. 1962); American Chicle Co. v. Topps Chewing Gum, Inc., 208 F. 2d 560, 99 USPQ 362 (2d Cir. 1953); Dupont Cellophane Co., Inc. v. Waxed Products Co., Inc., 85 F. 2d 75, 81, 30 USPQ 332, 338 (2d Cir. 1936), cert. den. 299 U. S. 601 (1936). Also, this Circuit may accord the element of wrongful intent a substantially lesser role than do the courts of New York Triumph Hosiery Mills, supra, 308 F. 2d 196, 135 USPQ 45 (2d Cir. 1962), reversing, 191 F. Supp. 937, 128 USPQ 536 (S. D. N. Y. 1961); Harold F. Ritchie, Inc. v. Chesebrough-Pond's Inc., 281 F. 2d 755, 758, 126 USPQ 310, 312-313 (2d Cir. 1960); Upjohn Co. v. Schwartz, 131 F. Supp. 649, 654, 105 USPQ 150, 153 (S. D. N. Y. 1954) modified, 246 F. 2d 254, 114 USPQ 53 (2d Cir. 1957).

Of the many factors relevant to such an appraisal, there are perhaps three of general applicability.

[16] First, there is a legitimate public interest in refusing to grant to one individual or business a monopoly right in the use of a word which has become generic and which is, accordingly, the only word by which a given commodity [17] is known.[22] Second, where the design of the product itself is the identifying mark, rather than a trade name or package design, then the legitimate interest of product competition may militate in favor of allowing another to copy and market a closely similar item.[23] And [18] third, there is the question of the degree to which the products involved are in competition. This factor establishes the degree of likelihood that the trade name will be diluted or that trade will be diverted from the first-comer. Cf., Polaroid Corp. v. Polarad Electronics Corp., 287 F. 2d 492, 128 USPQ 411 (2d Cir. 1961), cert. den. 368 U. S. 820, 131 USPQ 499 (1961).

As applied to the facts of the case at bar, considerations raised by each of these three factors tend to favor the granting of relief to these plaintiffs:

(1) The word "Flexitized" cannot be said to have become, in the public mind, the one, generic, term of reference for a type of product. (2) The defendants are not charged with copying of product design, but with the use

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[22] Cf. Kellogg Co. v. National Biscuit Co., 305 U. S. 111, 39 USPQ 296 (1938). The application of this principle has given rise to differences among the courts. Compare Nissen Trampoline Co. v. American Trampoline Co., 193 F. Supp. 745, 129 USPQ 210 (S. D. Iowa 1961), with Nissen Trampoline Co. v. International Tram-po-line Manufacturers, Inc., 190 F. Supp. 238, 127 USPQ 449 (E. D. N. Y. 1960); compare American Chicle Co., supra, 208 F. 2d 560, 562, 99 USPQ 362, 364 (2d Cir. 1953), with Selchow v. Baker, 93 N. Y. 59, 65 (1883).

[23] Cf. Hygienic, supra, 302 F. 2d 614, 622, 133 USPQ 96, 102-103 (2d Cir. 1962).

of a trade name. (3) The defendants used the word "Flexitized" in connection with closely competing products.

[19] Other aspects of this case affirmatively suggest that injunctive relief is warranted here. By far the most significant of these is that prior to their unauthorized use of plaintiffs' trade name, defendants, as distributing agents, stood in a fiduciary relationship to the plaintiffs. Under the terms of this agency, defendants were entrusted with use of the word "Flexitized", in the corporate title of defendant National Flexitized and in connection with the marketing of stays made or sold by plaintiffs. The permission did not extend beyond the life and terms of the agency,[24] and the defendants must reasonably have realized this.[25] Defendants' continued use of the word "Flexitized" after the termination of the agency was flagrantly inconsistent with a fiduciary duty of fair dealing which does not, as regards expropriation of business assets of the principal, terminate with the agency.[26]

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[24] Special Questions 19-21 and the answers thereto.

[20] [25] Special Question 22 and its answer. In addition to their knowledge that plaintiffs had themselves coined the word "Flexitized" and had registered a trademark thereon, defendants were specifically apprised of plaintiffs position with regard to defendants use of that word in the letters of December 17, 1953, and July 16, 1957. These factors, together with the existence of an agency relationship here, make inapposite the proposition, applicable in other circumstances, that a plaintiff in a trademark infringement suit may be barred by laches if notwithstanding prompt notice to the defendant of his objections to their use of a mark, he has unduly delayed in bringing suit. Poleroid Corp. v. Polarad Electronics Corp., 287 F. 2d 492, 128 USPQ 411 (2d Cir. 1961), cert. den. 368 U. S. 820, 131 USPQ 499 (1961).

[26] Restatement of The Law of Agency 2d, § 396, p. 224 (1958). As defensive matter in this area, defendants have pointed to the undisputed evidence that, during the life of the agency, they spent a substantial sum in advertising and publicizing the word "Flexitized."

Appendix B

[21] Another indicator of what may be termed "wrongful intent" on the part of the defendants is that their unauthorized use of the word "Flexitized" was the sequel to a breach on their part of the very contract which had authorized their use of that word, under specified terms and limitations.

[22] And, finally, it is clear that defendants' use of the word "Flexitized" could only have been motivated by a desire to capitalize on the cachet built up for that word during the life of the agency. That there are other words readily imaginable to serve equally well as trade names for the type of garment stays involved here is illustrated by the circumstance that the defendants have, on occasion, used the word "Flexway" in connection with the marketing of such items.[27]

Neither in this, nor in any other particular, have the defendants shown that an order enjoining their further unauthorized use of the word "Flexitized" would cause serious or undue hardship to their business.

The conclusion that plaintiffs are not entitled to recover money damages, and some of the reasons therefor have already been suggested. Of particular significance here is

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This is, indeed, an element to be weighed in assaying the relative equities of plaintiffs and defendants here. But a crucial factor in this regard is that since, by the very terms of the agency itself, defendants' use of the word "Flexitized" was authorized only as long as they continued to sell plaintiffs' products exclusively, the very terms of the agency rebut an inference that the defendants could acquire a right to use the word "Flexitized" in connection with products not made or sold by them.

[23] [27] Plaintiffs' argument that the word "Flexway" is sufficiently similar to the word "Flexitized" to work an infringement upon it, is without merit. Defendants rightly point out that the word "flex" is a word in the English language and that numerous trademarks have been registered which employ "flex" as the initial or principle component.

the considered reluctance, and the reasons for it, of New York courts to grant more than injunctive relief in analogous situations of unfair competition.

Moreover, as the jury found in response to Question 17, and indeed on the basis of what plaintiffs attempted to prove, the only evidence of damages on any claim in this case related to loss of profits by plaintiffs during the period from July 16, 1957 through December 31, 1958, which was presumably the date when the contract would have terminated "by its terms".[28] The jury, as we know from its answer to Question 10, has assessed and awarded $27,000 damages for breach of contract on the basis of the same evidence and for the same period.

Plaintiffs do not serious question the obvious proposition that they are not entitled to a "double recovery". They do urge, however, that this court, either directly or with the aid of a special master, must hold further hearings to take evidence and assess damages for vaguely claimed "lost profits" from January 1, 1959 to the present. This court can find no New York case authorizing such a procedure in analogous circumstances. Moreover, as a practical matter, since plaintiffs have had another eastern United States agent or distributor of their products since September, 1957, any lost profits from January, 1958 to date seem unlikely or, at best, highly speculative.

To summarize, an order and judgment should be settled on notice to provide for judgment for plaintiffs on the breach of contract jury award of $27,000, with interest thereon at 6% to be computed from July 16, 1957 to and

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[28] "16. If the answer to #15 is yes, did this conduct of defendants cause injury or damage to the business of either Plaintiff?" "Yes."

"17. If the answer to #16 is yes, state, for each plaintiff so injured, the money-amount of such injury or damage." "(See total in Question 10)."

including January 18, 1963; for cancellation of the registered mark "Flexitized" and certification of such cancellation to the Commissioner of Patents; and for enjoining defendants and their affiliates and agents from using the word "Flexitized" as part of a corporate or firm title and in connection with their manufacturing, marketing and sales operations. With reference to the injunctive provisions of the proposed order and judgment, [24] it is further directed that defendants be afforded a period of at least 60 days within which to divest themselves of their corporate name including the word "Flexitized" and all references to such word in their letterheads, billheads, advertising and promotional materials and the like.

APPENDIX C

(Judgment of the Court of Appeals for the Second Circuit)

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the third day of August, one thousand nine hundred and sixty-four.

Present:

HON. STERRY R. WATERMAN,
HON. HENRY J. FRIENDLY,
HON. PAUL R. HAYS,
Circuit Judges.

FLEXITIZED, INC. and FLEXITIZED SALES CORPORATION,
Plaintiffs-Appellants,

v.

NATIONAL FLEXITIZED CORPORATION and
DUBIN-HASKELL LINING CORP.,
Defendants-Appellants.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District

Court be and it hereby is affirmed, except that part which refused to grant plaintiffs-appellants an accounting and as to said part, the judgment be and it hereby is reversed and the action be and it hereby is remanded for further proceedings not inconsistent with the opinion of this court with costs to plaintiffs-appellants.

A. DANIEL FUSARO,
Clerk.

APPENDIX D

(Judgment of the District Court)

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

—o—

FLEXITIZED, INC. and FLEXITIZED SALES CORPORATION,
Plaintiffs,

against

NATIONAL FLEXITIZED CORPORATION and
DUBIN-HASKELL LINING CORP.,
Defendants.

—o—

This cause came on for trial before the court and a jury on January 9, 10, 11, and 14 through 18, 1963, all parties appearing by counsel, and the court having instructed the jury to return a special verdict pursuant to Rule 49(b), F. R. C. P. on the first cause of action for breach of contract, and the jury having found such special verdict, and such special verdict having been duly filed, and the issues on the second and third causes of action for trade mark infringement and unfair competition having been duly tried by the court and advisory jury, and the defendants having moved to set aside the special verdict, or in the alternative, for a new trial, and the court having filed its opinion, findings of fact and conclusions of law on the 19th day of February, 1963, directing entry of judgment as hereinafter provided, and denying the defendants' motions;

ORDERED, ADJUDGED AND DECREED that plaintiffs, Flexitized, Inc. and Flexitized Sales Corporation, both residing at 2010 South Main Street, Los Angeles, California, recover

of defendants, National Flexitized Corporation and Dubin-Haskell Lining Corp., both residing at 16 East 34th Street, New York, New York, jointly and severally, on the first cause of action the sum of $27,000.00, with interest thereon of $8,918.88, together with $402.70 costs as taxed, making a total recovery of $36,321.58; it is further

ORDERED, ADJUDGED AND DECREED that the second cause of action be dismissed and Registration No. 601713 of the word "Flexitized" in the United States Patent Office is hereby cancelled and stricken from the principal Register, and the Clerk of this Court, upon entry of the judgment herein, shall cause a certification of such cancellation to be given to the Commissioner of Patents; it is further

ORDERED, ADJUDGED AND DECREED that plaintiffs have judgment on the third cause of action to the extent that defendants National Flexitized Corporation and Dubin-Haskell Lining Corp., and each of them, their affiliates and agents, and all persons employed, associated, or in active concert and participation with either of them, or their affiliates and agents, be and they hereby are perpetually enjoined and restrained from in any manner or means, directly or indirectly, employing, using, advertising, publishing or in any way referring to the word "Flexitized" or any colorable imitation thereof, as part of a corporate or firm title, and in connection with their buying, manufacturing, marketing, advertising, distributing and selling of collar stays and competing products, provided however, that defendants shall have sixty days from the date of entry of this judgment, to divest themselves, their affiliates, agents, and all persons employed, associated or in active concert and participation with either of them, of and from the use of the word "Flexitized" in their corporate or firm title, and in all letterheads, billheads, advertising, promotion and mar-

keting materials, and in other identification and connection with collar stays and competing products; it is further

ORDERED, ADJUDGED AND DECREED that plaintiffs' claim for money damages and an accounting of defendants' profits on the third cause of action is hereby denied; it is further

ORDERED, ADJUDGED AND DECREED that defendants' motions are hereby denied, and it is further

ORDERED, ADJUDGED AND DECREED that defendants' counterclaims be and the same hereby are dismissed with prejudice.

/s/ H. R. TYLER, JR.,
U. S. D. J.

Dated: New York, N. Y.,
March 25, 1963.

APPENDIX E

(Order of Harlan, *J.*)

SUPREME COURT OF THE UNITED STATES

No. , October Term, 1964

—o—

NATIONAL FLEXITIZED CORPORATION, et al.,
Petitioners,

vs.

FLEXITIZED, INC., et al

Order Extending Time to File Petition for Writ of Certiorari

—o—

UPON CONSIDERATION of the application of counsel for petitioner(s),

IT IS ORDERED that the time for filing a pe'ition for writ of certiorari in the above-entitled case be, and the same is hereby, extended to and including December 31st, 1964.

/s/ JOHN M. HARLAN,
Associate Justice of the Supreme Court
of the United States

Dated this 30th day of October, 1964.

APPENDIX F

(Order of Court of Appeals Recalling Mandate to the District Court)

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

—o—

FLEXITIZED, INC. and FLEXITIZED SALES CORPORATION,
Plaintiffs-Appellees,

vs.

NATIONAL FLEXITIZED CORPORATION and
DUBIN-HASKELL LINING CORP.,
Defendants-Appellants.

—o—

Motion to recall mandate and stay reissuance.

Motion granted.

The mandate is recalled and its reissuance is withheld until January 4, 1965 and if before said date a petition is filed with the Supreme Court praying for the issuance of a writ of certiorari to review the judgment herein, then until disposition of said petition.

S. R. W.
P. R. H.
U.S.C.JJ.

I cannot see why movant's long delay in seeking a stay of the mandate should give him a much longer period of relief than litigants who act promptly.

I would deny.

H. J. F.
U.S.C.J.

November 12, 1964.

APPENDIX G

(Letter, Dated December 4, 1963)

(PHOTOSTAT)

(See opposite ☛)

PATENT PENDING

Flexitized Sales Corporation

3010 SOUTH MAIN STREET
LOS ANGELES 7, CALIFORNIA

U.S. Dist. Court
S.D. of N.Y.
JAN 10 1963

#4

December 1, 1963

Dubin-Haskell Lining Corporation
326 Broadway
New York, New York

ATTENTION: HERB HASKELL

Dear Herb:

Pursuant to our today's conversation, I am setting forth the major terms of our agreement. We hope this will serve as some kind of protection for you until such time as our lawyers can draw up a formal, legal agreement.

#1. Flexitized Sales Corporation will sell you "Flexitized" stays at the following prices; up to four inches 40 cents per dozen pair, up to 4½ inches 45 cents per dozen pair, and up to five inches 50 cents per dozen pair, less 25% discount. Our terms are net 10 EOM, F.O.B. Los Angeles. The selling price is to be determined by Flexitized Sales Corporation.

#2. We will give you exclusive rights to the entire United States, with the exception of the eleven Western states.

#3. You will have exclusive right to sell all foreign countries. However, in the event that we license a manufacturer in a foreign land the question of exclusiveness in this particular land would then be reexamined. In the case of Canada, you will have exclusive rights without reservation and exception.

#4. The contract is to run for five (5) years.

#5. After a three month trial period we would expect a minimum dollar volume business by you, of not less than $10,000 per month gross sales to the Trade.

#6. Dubin-Haskell would not have the right to sell a competing product, directly or indirectly.

#7. We would expect Dubin-Haskell to advertise "Flexitized" in their territory.

#8. Flexitized Sales Corporation would like duplicate invoices of all charges.

I beleive these are the salient points.. Our lawyers, I'm certain, could draw an agreement satisfactory to both parties. If the above is satisfactory to you, sign one copy and return it. We like the idea of your setting up a new company, incorporating the word "Flexitized". For your convenience and guidance we have set up two companies - FLEXITIZED SALES CORPORATION and FLEXITIZED INC.

Patent Pending

Flexitized Sales Corporation

3010 SOUTH MAIN STREET
LOS ANGELES 7, CALIFORNIA

We are sending you 20 dozen pair 4" "Flexitized" stays via Air Mail tonight.

I am very confident that this will be a paying and successful venture for all parties concerned. We on our part pledge full co-operation to that end.

With kindest regards and best of good wishes.

Very truly yours,

FLEXITIZED SALES CORPORATION

LG:eb

Louis Graver

P.S.
All merchandise in your territory is to be billed by you and checked by you.

APPENDIX H

(Letter, Dated December 8, 1953)

DUBIN-HASKELL-JACOBSON, INC.
Converters of Textiles
326 Broadway New York 7, N. Y.
WOrth 4-0090

December 8, 1953

Flexitize Sales Corp.
2010 South Main Street
Los Angeles 7, Calif.

Att: Mr. Lou Graver

Dear Lou:

I am herewith outlining and confirming the additional points we discussed in our telephone conversation today. The points on which we both agreed, in addition to the contractual agreement of December 4, are as follows:

The No. 4 item which states that the contract is to run for five years is to have an additional clause which reads—"and is automatically renewed." The automatically renewed addition is tied in with the No. 5 item which is to be changed to read—"a minimum volume business of $100,000 per year" instead of the $10,000 per month for a three-month trial. In other words, the first year's volume is to be a minimum of $100,000 sales and each year to continue on a minimum of $100,000 sales which then would automatically renew the five-year contract for an additional five years.

The No. 6 item which reads—"Dubin-Haskell would not have the right to sell a competiting product directly or indirectly" will add the following clause (for the life of this contract).

Appendix H

The No. 8 item is to be excluded entirely with the understanding that if we do any business with any of the top outstanding firms which will help in the sale of this product and for the advertising of this product, we will discuss this and mention the names of these accounts.

Also, this contract is to be made from both your companies, Flexitize Sales Corporation and Flexitized, Incorporated to our Company.

You are to advise us about changing the f. o. b. Los Angeles to read—"f. o. b. New York City." I think, Lou, that this is not too big an item on your side but it is very important for us and to our mutual advantage.

As we both thought, it would be a good idea to get your attorney to write up an agreement covering all these points as we agreed and forward same to us to make this legally official. In the meantime, as per your statement, we will proceed and start working on this product immediately.

Confirming our telephone conversation, you are to forward us a few dozen pictures and approximately 1½ dozen collars that will show the Flexitize as it is sewn in the collar, and also a few collars with the Flexitize sewn into the pocket. You are also going to forward us a shirt that has been washed so we can use this for illustration. We would also like two or three shirts made up with Flexitize so we can use them for exhibits.

I also gave you an order to ship us fifty dozen Size 3½" Flexitize stays immediately.

I am sure we will do quite a job with this product, Lou, and will be speaking and writing to you shortly.

With kindest personal regards, I am

Sincerely,

DUBIN-HASKELL-JACOBSON, INC.
Herb
HERBERT HASKELL

/w

APPENDIX I

(Letter, Dated April 8, 1957)

(REGISTERED AIR MAIL)

Mr. Herbert Haskell
Dubin-Haskell, Inc.
326 Broadway
New York, New York

Dear Herb:

Since our little conversation over the telephone we have heard nothing from you and assume that our Flexitized business is at a standstill with you for various reasons that you pointed out.

As you realize, we have a tremendous investment in equipment, plus a lot of other things in relation to Flexitized; and, as you further must surely realize as a businessman, we cannot just let the thing die. Don't misunderstand, Herb, we are not questioning your efforts in the least, and knowing the type people you are I personally know you are making every effort to sell, however, we have to be realistic.

We are going to attempt to sell the product by other means, which, at this time, would exclude a jobbing set-up. I am sure you will understand, so you were doing absolutely nothing with it and we cannot afford to have it lie idle. We will, of course, not leave you out on any limb and if in the next thirty days you have any requirements that need to be taken care of we will continue to service you for that period.

If there is anything I have not covered in this letter, or if any ideas come to you after reading this, you know that all you have to do is to contact me.

I would like to have you acknowldge this letter, and I and my associates want to thank you for your fruitful if occasionally hectic period.

Warmest personal regards,

FLEXITIZED SALES CORPORATION.
HENRY AMBER

cc: Sam Dubin
Leonard Kohn, ? Jacobsen

APPENDIX J

(Letter, Dated July 16, 1957)

July 16, 1957

Mr. Herbert Haskell
National Flexitized Corporation
86 Worth Street
New York City, N. Y.

Dear Herb:

We have evidence to the effect that you are handling a competitive stay, which is in direct violation of our arrangement. Therefore, we have decided to terminate relations with National Flexitized Corporation, the same to take effect immediately. We will, however, fill any emergency orders up until August 1, 1957.

Furthermore, we request that you immediately discontinue using the name "Flexitized" in your operations, as we have learned that you are selling other products under this name.

Sincerely,

LOUIS GRAVER,
FLEXITIZED SALES CORPORATION.

APPENDIX K

(Jury's Questions and Answers)

No. 1: "Did either plaintiff enter into a contract or contracts with either defendant?

"Yes."

No. 2: "If answer to #1 is yes, between what plaintiffs and what defendants was this contract or contracts made?"

Answer: "Flexitized, Inc. and Flexitized Sales Corporation, National Flexitized Corporation and Dubin-Haskell Lining Corp."

No. 3: "If defendant Dubin-Haskell Lining Corp. was a party to a contract or contracts with either plaintiff, did it later transfer all its rights and duties under such contract or contracts to defendant National Flexitized, with the express intention of ceasing to be a party to the contract or contracts?"

Answer: "No."

No. 4: "If the answer to #3 is yes, did [856] either plaintiff then accept performance of such contract or contracts by defendant National Flexitized with full knowledge that Dubin-Haskell had assigned to National Flexitized all its rights and duties under such contract or contracts with the intention of ceasing to be a contracting party?"

Dash.

No. 5: "If the answer to #1 is yes, did this contract or contracts provide that National Flexitized was not to sell and distribute stays which were in competition with plaintiffs' stays and which were not made or sold by plaintiffs?"

Answer: "Yes."

No. 6: "If the answer to #1 is yes, did the contract or contracts provide that, during the life of the contract, defendants were to use their best efforts to sell stays made or sold by plaintiffs?"

Answer: "Yes."

Appendix K

No. 7: "If any term was breached by a defendant, did either plaintiff, prior to any breach by a defendant, refuse and cease to carry out its part of the contract?"

Answer: "No."

[857] No. 8: "If the answer to #5 or #6 is yes, was the term stated in question #5 breached?"

Answer: "Yes."

"Was the term stated in #6 breached?"

Answer: "Yes."

No. 9: "If the answer to either part of question #8 is yes, state, for each such yes answer, which defendant or defendants so breached."

Answer: "National Flexitized Corporation and Dubin-Haskell Lining Corporation."

No. 10: "If the answer to either part of question #8 is yes, state, for each such yes answer, the money-amount of the injury, if any, which each such breach caused each plaintiff whose contract rights were so breached."

Answer: "$27,000 total amount."

No. 11: "If the answer to #8 is yes, did the plaintiffs fail to take measures reasonably available to reduce the injury or damage to their business caused by this breach of contract?"

Answer: "No."

No. 12: "If the answer to #11 is yes, what portion of the injury or damage stated in answer [858] #10 was result of this failure to take such reasonably available measures?"

Dash.

No. 13: "Did a significantly large number of purchasers of collar stays or garments containing such items become familiar with the word 'Flexitized' *before* defendant National Flexitized started selling stays made or sold by companies other than plaintiffs?"

Answer: "Yes."

Appendix K

No. 14: "If the answer to #13 is yes, did this familiarity makes these purchasers more likely to buy stays or garments containing such items called 'Flexitized' because the word 'Flexitized' was used in connection with them?"

Answer: "Yes."

No. 15: "If the answer to #14 is yes, did defendant National Flexitized use, without permission, the word 'Flexitized' in connection with stays not made or sold by plaintiffs with the deliberate intention of exploiting the purchasers' familiarity with the word 'Flexitized'?"

[859] Answer: "Yes."

No. 16: "If the answer to #15 is yes, did this conduct of defendants cause injury or damage to the business of either plaintiff?"

Answer: "Yes."

No. 17: "If the answer to #16 is yes, state, for each plaintiff so injured, the money amount of such injury or damage."

Answer: "See total in question No. 10."

No. 18: "If defendant National Flexitized used the word 'Flexitized' in connection with stays not made or sold by plaintiffs, did a significant number of purchasers of stays or garments containing such items buy such stays or garments because of a mistaken belief that the stays were made or sold by plaintiffs?"

Answer: "Yes."

No. 19: "Did plaintiffs give defendant National Flexitized permission to use the word 'Flexitized' when selling stays not made or sold by plaintiffs (a) during the life of the contract?"

Answer: "No."

"(b) after the life of the contract?"

[860] Answer: "No."

"Answer both (a) and (b)."

No. 20: "If the answer to #19(a) or #19(b) is yes, did the permission include the use by defendant National Flexitized of the word 'Flexitized' in its corporate title (a) during the life of the contract?"

Dash.

"(b) after the life of the contract?"

Dash.

"Answer both (a) and (b)."

No. 21: "If the answer to #19(a) or #19(b) is yes, did this permission include the use by defendants of the word 'Flexitized' in connection with the marketing, distribution and sale of stays not made or sold by plaintiffs (a) during the life of the contract?"

Dash.

"(b) after the life of the contract?"

Dash.

"Answer both (a) and (b)."

No. 22: "If the answer to #19(a) or #19(b) is no, did defendant National Flexitized nonetheless [861] reasonably believe that plaintiff had given it permission for the use of the word 'Flexitized' which is set forth in question #20(a)?

"No.

"#20(b)?

"No.

"#21(a)?

"No.

#21(b)?

"No."

No. 23: "Did plaintiffs, expressly or by implication. give permission to any other person or company to use the word 'Flexitized' in connection with stays not made or sold by plaintiffs?"

Answer: "No."

No. 24: "If the answer to #23 is yes, to whom was such permission given?"

Dash.

"This is the unanimous decision by the jury." Signed "Clarence L. Coldwood, Foreman."

* * *

APPENDIX L

(Letter, Dated August 1, 1957)

August 1, 1957

National Flexitized Corporation
86 Worth St.
New York 13, N. Y.

Gentlemen:

Attention: Mr. Leonard Kahn

We have your wire of today's date, with reference to Order No. 450.

Confirming our wire, this date, please refer to our letter of July 16, 1957, which clearly states that we have terminated relations with National Flexitized Corporation as of July 31, 1957. We are therefore sorry to inform you that this order, or any others subsequently received, will not be filled.

Very truly yours,

(Signed) Louis Graver,
Flexitized Sales Corporation.